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OFFICE OF
THE PRINCIPAL ACCOUNTANT GENERAL (AUDIT-I), GUJARAT

Manual of the Outside Audit Department



ISSUED BY
THE PRINCIPAL ACCOUNTANT GENERAL (AUDIT-I), GUJARAT,
RAJKOT

PREFACE

This Manual is issued in accordance with paragraph 38 of the Comptroller and Auditor General's Manual of Standing Orders (Administrative). Restructuring of the offices of the Principal Accountant General (Audit-I), Gujarat, Rajkot Principal Accountant General (Audit-II), Gujarat, Rajkot came into effect from 15th May 2020 taking into account the numerous changes introduced subsequent to the first edition, the Manual has been revised and updated. The corrections issued from time to time and up to July 2020 have been incorporated and the manual is brought out in diglot edition.

This manual has been prepared by referring Indian Auditing Standards published by IA&AD (Third Edition, 2017), Regulations on Audit and Accounts, 2007, Compliance Auditing Guidelines 2016, Manual of Instruction for Audit of Autonomous Bodies (Second Edition, 2010), CAG's Manual of Standing Order (Audit), OAD manual, Audit Quality Management Framework, Standing orders on role of audit in relation to Fraud and Corruption and various Instructions/ Circulars/ Guidelines issued by HQ's from time to time.

The instructions contained in this Manual are supplementary to those embodied in the Codes and Manuals issued by the Comptroller and Auditor General of India and the Union and State Governments. This Manual should not be quoted as an authority in any of the correspondence outside this office.

Suggestions either in the nature of amendments to or of rectification of omissions in the Manual should be brought to the notice of APM Section, who is responsible for keeping this Manual upto date.

Place: RAJKOT

Date:

(Mr. Dinesh R Patil)
Pr. Accountant General

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CHAPTER-I

CONSTITUTION AND FUNCTIONS

1.01. The Outside Audit Department (OAD) is constituted for the conduct of local audit and inspection of Government offices and institutions maintaining accounts as envisaged under Section-18 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act 1971:-

1.02 The OAD is entrusted with the duty of discharging the following functions assigned to the CAG of India under the provisions of various Sections of the above Act:-

- i) Inspection and local audit of expenditure in State Government offices and institutions including pension payments by Public Sector Banks (Section 13)
- ii) Local audit of receipts and expenditure of bodies and authorities including societies substantially financed by grants or loans by Government (Section 14)
- iii) Scrutiny of the procedure by which the sanctioning authority satisfy itself to fulfil the condition of grants and loans given to bodies/authorities for specific purpose. (Section 15)
- iv) Local audit of receipts of the Union or State Governments (Section 16)
- v) Local audit of the accounts of stores and stock kept in any office or department of the Union/State Government (Section 17)
- vi) Audit of Government Companies under the provisions of the Companies Act 1956 (Section 19(1))
- vii) Audit of accounts of Corporations (not being companies) established by law made by Parliament/ Legislature (Section 19(2))
- viii) Audit of accounts of Corporations established by law made by the legislature of the State on request by the Governor (Section 19(3))
- ix) Audit of accounts of any other body or authority undertaken on the request of the President of India/Governor of State Government to CAG (Section 20(1))
- x) Audit of the accounts of any other body or authority as empowered by the President of India/Governor of State Govt. in pursuance of a request made by CAG (Section 20(2))

In addition to, local audit of the offices of other State Governments situated within Gujarat is also undertaken by this department, on behalf of other State Accountants General (Audit), as and when such audit is entrusted by the CAG of India.

(Extracts of Sections 13 to 20 of CAG's (DPC) Act.1971 are given in *Annexure-I* to this chapter)

1.03 Restructuring of State Audit Offices.

(i) As a part of restructuring of State Audit Offices, Head Quarters Office intimated (May 2020) implementing restructuring of all Audit Offices in all the States and Union Territories with effect from 15th May 2020.

After restructuring in May, 2020, Pr. Accountant General (PAG) (General and Social Sector Audit) was renamed as Pr. Accountant General (PAG) (Audit-I).

After cluster based re-organization of Audit Offices, the office have seven clusters under the jurisdiction of this office. The Group Officers charge has been re-designated as Audit Management Group (AMG) (e.i AMG-I, AMG-II and AMG-III etc.). The cluster wise distribution of charge among the groups has been done as under:

Group	Cluster No. & Name	Related Departments.
AMG-I	1. Health and Welfare	1. Health and Family Welfare 2. Social Justice & Empowerment 3 Tribal Development 4. Women and Child Development.
	2. Education, Skill Development and Employment.	5. Education 6. Labour and Employment 7. Youth Sports and Culture Activities.
	DAG/AMG-I is also assigned the work of supervision of Technical Cell	
AMG-II	3. Rural Development	8. Panchayat, Rural Housing and Rural Development Department.
	4. Urban Development	9. Urban Development and Urban Housing
	DAG/AMG-II is also assigned with the job of Technical, Guidance and Support (TGS) functioning to strength the working of examiner, Local Fund (LF) Accounts of State Government.	
	Resident Audit Office (RAO), Ahmadabad and Gujarat Housing Board (GHB) Gandhinagar is also functioning under DAG/AMG-II. (As per PAG(Audit-I) order no. 241 dated 04-03-2021)	
AMG-III	5. Agriculture, Food and Allied Industries	10. Agriculture & Co-operative 11. Food and Civil Supplies.
	6. Water Resources	12. Narmada, Water Resource, & Kalpsar
	7 Culture and Tourism	7A Culture- Youth Sports and Culture Activities & Tourism-Industries and Mines (PAG-Audit-II, Ahmedabad)

The concerned AMG Group would conduct Financial Audit of the Public Sector Undertakings (PSU) and Autonomous Bodies (ABs) through commercial staff posted under them. The concerned AMG groups will submit report to the Technical Cell for further processing. OAD-IV section will work as Technical Cell for Financial Audit.

The group comprising OAD (HQR.) sections viz. APM, OAD I to IV, AMG-III, Local Audit Parties, Certification of Centrally Sponsored Schemes, Central Plan Schemes and State Plan Schemes and Certification of Externally Aided Projects.

(ii) Efficiency-Cum-Performance Audit (ECPA) wing comprises the ECPA (HQ) Section and the review parties of our office. There is a separate Manual for the ECPA Wing.

The scope and process of audit in respect of RAO and GHB is dealt in Chapter-24

(iii) The Audit Jurisdiction of all Government of India Offices (including those pertaining to the Union Territory Daman and Diu and Dadar and Nagar Haveli). Autonomous Bodies, undertaking etc have been transferred to newly created office of the Principal Director of Audit (Central), Ahmedabad.

(AG (G &SSA) Rajkot office order No.Admin/Aud/ dated 23.05.2012)

The instructions contained in this Manual dealt with the procedures to be followed during the local audit of civil offices and audit of records of State Autonomous Bodies by Outside Audit Department (OAD).

1.04 Special Audits

When a special audit for special reasons is requested by the State Government such as in cases of suspected misappropriation etc. the PAG/AG may at his discretion take up the audit, if the case presents special features and requires expert scrutiny by the staff of IA & AD. Any request for special audit is to be examined by the PAG/AG on the merits in the light of the investigation carried out by the departmental authorities. The PAG/AG is having discretionary powers either for taking up special audit or for disagreeing to the request from the departments for conducting special audit considering the merits of the case.

(CAG's Circular No.633 - CA II/Co-ordn/Circulars/2003-04/55-2004 dated 21-6-2004)

These audits are in pursuance of the statutory functions of the Comptroller and Auditor General of India and the cost thereof falls in the Audit Budget. The question of recovery of cost of audit will arise only when the audit is not the statutory function of the Comptroller and Auditor General of India.

(Letter No. 1615 Admn. III/232-60 dated 11-8-1960 of the CAG).

1.05 Selection of staff for inspection works:

(i) The Comptroller and Auditor General has observed that if inspections are to serve their purpose and maximum value is to be obtained from the expenditure incurred on inspections, the inspection work should be entrusted to specially trained, competent and intelligent staff who would in addition to exercising the prescribed routine checks, also examine the accounts intelligently and pay due regard to the principles of higher audit. Special attention should, therefore, be given to the selection of staff deputed for inspection work, so that it may be ensured that inspections are conducted in a really effective manner.

(CAG's letter No. 539-Admn.5. Rep/49 dated 23/3/1950).

(ii) The Assistant Audit Officer (AAO) selected for inspection work should be chosen officers who have special aptitude for such work and have sufficient experience of work in Departmental Audit Sections. As far as possible AAOs and auditors should be entrusted with those local audits where they can contribute more in view of their experience of certain branches.

(iii) Although it is left to the discretion of the PAG/AG to select the inspecting officers, the CAG considers that Sr. Deputy Accountants General (Sr. DAG)/ Deputy

Accountants General (DAG) and senior experienced Officers should profitably be employed on inspection duties. The persons chosen should be not only tactful, knowledgeable, experienced and diligent but should possess discernment and a sense of perspective that would enable them to direct the audit along with proper lines and save it from becoming an unbalanced hunt for individual major irregularities or degenerating into a mindless mechanical process of checking registers.

(iv) The personnel for manning the posts sanctioned for local audit and inspection work in the field has to be found from among those working in the Central Office. As it would cause hardship to individuals if they are required to remain away from their headquarters for protracted periods, replacements have to be made after persons have been in the field for a few months. Apart from the expenses involved in making these replacements in terms of travelling allowance and transit time, the frequent changes of personnel, which this arrangement involves, affect efficiency in the Central Office and inhibit the growth of a cadre of trained local audit personnel with the requisite experience and expertise. In order to get over these difficulties, the CAG has permitted the location of the headquarters of some local audit parties and inspecting officers at places other than the seat of the PAG/AG and the posting of personnel in these places on long term basis, subject to the following general stipulations:

(a) The human aspect of the problem of transferring persons from headquarters of zonal centres should be kept in view and subject to administrative requirements, the persons chosen should be those who belong to those centres or neighbouring places or who prefer to be posted there. The persons posted in Zonal Centres should be treated as having been transferred there.

(b) The Headquarters of the zonal parties should be within easy reach of the various offices to be inspected by the parties stationed at the zonal centres.

(c) The staff should not continue to be kept in one zone for more than three years. The composition of the parties operating in one zone should also be frequently changed so that the same persons do not repeatedly inspect particular office.

(d) All work relating to the editing, issue and pursuance of local audit reports should remain centralised in the headquarters office.

(CAG's letter No.591-Admn-III/44-62 dated:5.4.1962)

1.06 Levy of fee for the audit of the accounts of Non-Government Funds:

(i) It has been decided by the Government of India, in consultation with the CAG of India, that audit charges will be adjusted as follows:

a) Where CAG is the sole auditor for local body/institution, under any law made by Parliament under Article 149 of the Constitution, charges will be payable in full, unless specifically waived by Government under section VIII of Appendix 3 of Account Code, Volume I.

b) Where the audit is super imposed with the local body/institution having its own auditors, i.e. with a view to ensure that the grants or loans by Government have been

utilized for the purpose for which they are given, the CAG will be acting in the discharge of his statutory functions and the audit will be at Government cost. (GoI, Ministry of Finance (DoE) O.M. No. F.5(7)-E. II(A)56 dated 14/8/1957).

NOTE:

(a) Where audit is undertaken under Section 19 or Section 20 of CAG's (DPC) Act 1971 and CAG acts as the sole auditor in respect of smaller institutions which are not involved in manufacturing or trading activities, recovery of cost of audit need not be effected if the amount is less than ₹10,000/- p.a. in each case).

(D.O. Letter No.649-Aud.II/143-85 dated 30/4/1985 from Director of Audit, CAG's Office).

(b) Where CAG acts as the sole auditor of autonomous bodies either under Section 19 or under section 20 of the CAG's (DPC) Act, 1971, cost of audit in respect of ECPA Reviews of these bodies need not be recovered even where cost of audit of accounts of the bodies is recovered.

(CAG's Letter No. 1741-Audit.II/147-TA-I/75(Cir.No. 38 Audit.II/1985 dated 7-11-1983).

(ii). In cases where audit fee is recoverable it shall be calculated on the basis of daily rates prescribed from time to time (except in cases where the rates of fees recoverable are prescribed by law or by rules having the force of law) and according to the method prescribed by the CAG of India.

(iii). Heads of Departments of IA&AD have been delegated the power to sanction daily rates of non-government funds due from 01-09-1968, subject to the following conditions:

a) The direct charges should be calculated on the basis of average cost of posts involved, and

b) The indirect charges should be computed at 125% of the direct charges.

(CAG's Letter No.65-Tech. Admn.I(A)/33-65 Vol. II dated 6-1-1969).

(iv). The cost of supervision by Sr. Audit Officer (Sr. A.O.) is included in 125% "indirect charges" calculated on "direct charges" and no separate audit fee in respect of supervision of Sr. Audit Officer of the audit party is to be recovered.

The daily rates of audit fee should be worked out and approved by the Head of the Department concerned within two months of the revision of the rates of pay and allowances necessitating the revision of the rates. Immediately after the rates are revised and approved, a copy of the orders should be sent to the CAG's Office to see that there are no wide disparities in the rates approved in different offices.

The accuracy of the daily rates of audit fee so calculated should be checked independently by the Internal Test Audit Section of the concerned office before the rates are approved by the Head of the Department. An indication to this effect should be given in the letter communicating the rates to the CAG's Office.

The accuracy of the daily rates of audit fee approved in each office should also be got checked by the Director of Inspection at the time of inspection of that office and a report to that effect sent to the CAG's Office after the inspection is over.

(CAG's letter No. 64-TA/33-65 Vol. II dated 6-1-1969).

(v). Average cost should be calculated in accordance with the instructions contained in Government of India order No.2 below FR 9(31) (Muthuswamy's Compilation of FR and SR Part I, Xth Edition).

(vi). The instructions in sub-para (v) above apply to the calculation of daily rates of audit fees in respect of audit conducted by peripatetic audit parties of Non-Government funds only.

(CAG's Letter No. 206-Audit I/23-85/II dated 31-3-1986)

(vii). The daily rates of audit fee for the period from 01-07-2019 approved by the PAG/AG (Audit-I) are given in **Annexure-II** to this chapter. The work of calculation of Audit fee is entrusted to the DAG/AMG-II who issues periodical circulars revising the rates.

(viii). To ensure timely recoveries of audit fee, a register for watching recovery of cost of audit in Form SY-338(**Form-V**) should be maintained. A demand note will simultaneously be issued to the Head of Institution concerned requesting him to remit the amount by demand draft in favour of the Pay and Accounts Officer (PAO), IA&AD C/o, Pr. Accountant General (A&E), Gujarat, Rajkot. When intimation regarding credit is received from the P.A.O. the remaining columns of the register should be filled in. This register should be put up to the Branch Officer every month and to the Group Officer quarterly.

(CAGs Letter No. 510-TA. I(RGL)/7-81 Vol II).

(ix). An officer other than the officer responsible for maintaining the register for watching recovery of cost of audit should review the register half yearly to ensure accuracy and speedy recoveries.

The half yearly reviews should be conducted by the 30th September and 31st March every year. The results of the reviews should be submitted to the PAG/AG. Further action based on the reviews, to be taken by the sections maintaining the registers should be watched by sections of the nominated officers.

(CAG letter No. 720/INSP/148/83/39/INSP1.84 dtd. 26.11.84).

Note: - The recovery of audit fees in respect of Central school and Employees State Insurance Corporation is watched through the office of the Director of Audit, Central Revenues, New Delhi who prepares a consolidated claim for all the Accountants General, against the respective institutions.

1.07. Preservation of old records

The Principal Accountant General (Audit-I) should preserve the following records in compliance to the Head Quarters Letter Dated 8 September 2004:

SI No	No Particulars of the Records	Period of Preservation
1.	Audit Completion Report	Permanent
2.	Files related to Autonomous Bodies	Permanent
3.	Audit Plans for various years	5 years in section and 2 years in old record
4.	General office order/circular file	1 year in section and 1 year in old record
5.	Office copy of TA bill forwarding and leave application of field officials	1 year in section and 1 year in old record
6.	Intimation to Audit entity	Permanent
7.	Monthly meeting Minutes /agenda	3 years in section and 2 years in old records
8.	Periodical returns of the section	5 years
9.	Weekly diaries of field parties	3 years in section and 2 years in old records
10.	Tour Programme file of field parties and MTS	3 years in section and 2 years in old records
11.	Externally Aided project closed files	1 year in section and 5 years in old records
12.	Files related to complaint cases	Permanent
13.	In house Training, RTI, RTC	3 years in section and 2 years in old records
14.	Various Registers	5 years
15.	Inward, Outward registers, transit registers	3 years in section and 2 years in old record
16.	Objection Book and Adjustment registers	3 years in section and 2 years in Old Record
17.	Inspection Reports which are closed	1 year in section and 5 years in old records
18.	Guidelines, manuals of GoG and CAG of India	Permanent

(Authority: For 1 to 16-Headquarter letter dated 8 September 2004 and For Sl. No. 17 to 23-MSO Admn. Volume 1, 3rd edition Chapter 12)

Annexure-I
(Referred to in Paragraph 1.02)

Extracts of Sections 13 to 20 & 24 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971

General Provisions relating to Audit

Section 13

It shall be the duty of the Comptroller and Auditor General-

- a) to audit all expenditure from the Consolidated Fund of India and of each State and of each Union Territory having a Legislative Assembly and to ascertain whether the moneys shown in the accounts as having been disbursed were legally available for and applicable to the service or purpose to which they have been applied or charged and whether the expenditure conforms to the authority which governs it;
 - b) to audit all transactions of the Union and of the State relating to Contingency Funds and Public Accounts;
 - c) to audit all trading, manufacturing, profit and loss accounts and balance sheets and other subsidiary accounts kept in any department of the Union or of a State;
- and in each case to report on the expenditure transactions or accounts so audited by him.

Audit of receipts and expenditure of bodies or authorities substantially financed from Union or State Revenues.

Section 14

14(1) Where anybody or authority is substantially financed by grants or loans from the Consolidated Fund of India or of any State or of any Union Territory having a Legislative Assembly, the Comptroller and Auditor General shall, subject to the provision of any law for the time being in force applicable to the body or authority, as the case may be, audit all receipts and expenditure of that body or authority and to report on the receipts and expenditure audited by him.

Explanation – Where the grant or loan to a body or authority from the Consolidated Fund of India or of any State or of any Union Territory having a Legislative Assembly in a financial year is not less than rupees twenty five lakh and the amount of such grant or loan is not less than seventy five per cent of the total expenditure of that body or authority, such body or authority shall be deemed, for the purposes of this sub-section, to be substantially financed by such grants or loans, as the case may be.

(2) Notwithstanding anything contained in sub-section (1) the Comptroller and Auditor General may with the previous approval of the President or the Governor of a State or the Administrator of a Union Territory having a Legislative Assembly, as the case may be, audit all receipts and expenditure of any body or of any State or of any Union Territory having a Legislative Assembly, as the case may be, in a financial year is not less than rupees one crore.

(3) Where the receipts and expenditure of any body or authority are, by virtue of the fulfilment of the conditions specified in sub-section (1) or sub-section (2), audited by the Comptroller and Auditor General in a financial year, he shall continue to audit the receipts and expenditure of that body or authority for further period of two years notwithstanding that the conditions specified in sub-section (1) or sub-section (2) are not fulfilled during any of the two subsequent years.

Functions of the Comptroller and Auditor General in the case of Grants or Loans given to the other Authorities or Bodies.

Section 15

15 (1) Where any grant or loan is given for any specific purpose from the Consolidated Fund of India or of any State or of any Union Territory having a Legislative Assembly to any authority or body, not being a foreign State or international organization, the Comptroller and auditor General shall scrutinize the procedures by which the sanctioning authority satisfies itself as to the fulfilment of the conditions subject to which such grants or loans were given and shall for this purpose have right of access, after giving reasonable previous notice, to the books and accounts of that authority or body.

Provided that the President, the Governor of a State or the Administrator of a Union Territory having a Legislative Assembly, as the case may be, may, where he is of opinion that it is necessary so to do in the public interest, by order, relieve the Comptroller and Auditor General, after consultation with him, from making any such scrutiny in respect of any body or authority receiving such grant or loan.

(2) Except where he is authorized so to do by the President, the Governor of a State or the Administrator of a Union Territory having a Legislative Assembly, as the case may be, the Comptroller and auditor General shall not have, while exercising the powers conferred on him by sub-section(1), right of access to the books and accounts of any Corporation to which any such grant or loan as is referred to in sub-section(1) is given if the law by or under which such Corporation has been established provides for the audit of the accounts of such Corporation by an agency other than the Comptroller and Auditor General:

Provided that no such authorization shall be made except after consultation with the Comptroller and Auditor General and except after giving the concerned Corporation a reasonable opportunity of making representation with regard to the proposal to give to the Comptroller and Auditor General right of access to its books and accounts.

Audit of receipts of Union or of States

Section 16

It shall be the duty of the Comptroller and Auditor General to audit all receipts which are payable into the Consolidated Fund of India and of each State and of each Union Territory having Legislative assembly and to satisfy himself that the rules and procedures in that behalf are designed to secure an effective check on the assessment, collection and proper allocation of revenue and are being duly observed and to make for this purpose such examination of the accounts as he thinks fit and report thereon.

Audit of accounts of stores and stock

Section 17

The Comptroller and Auditor General shall have authority to audit and report on the accounts of stores and stock kept in any office or department of the Union or of a State.

Powers of the Comptroller and auditor General in connection with audit of accounts

Section 18

18 (1) The Comptroller and Auditor General shall in connection with the performance of his duties under this Act, have authority-

(a) to inspect any office of accounts under the control of the Union or of a State, including treasuries and such offices responsible for keeping of the initial or subsidiary accounts, as submit accounts to him;

(b) to require that any accounts, books, papers and other documents which deal with or form the basis of or are otherwise relevant to the transactions to which his duties in respect of audit extend, shall be sent to such place as he may appoint for his inspection;

(c) to put such questions or make such observations as he may consider necessary, to the person in charge of the office and to call for such information as he may require for the preparation of any account or report which it is his duty to prepare;

(2) The person in charge of any office or department, the accounts of which have to be inspected and audited by the Comptroller and Auditor General, shall afford all facilities for such inspection and comply with requests for information in as complete a form as possible and with all reasonable expedition;

Audit of Government Companies and Corporations.

Section 19

19 (1) The duties and powers of the Comptroller and Auditor General in relation to the audit of the accounts of Government Companies shall be performed and exercised by him in accordance with the provisions of the Companies Act, 1956(1 of 1956).

(2) The duties and powers of the Comptroller and Auditor General in relation to the audit of the accounts of Corporations (not being Companies) established by or under law made by Parliament shall be performed and exercised by him in accordance with the provisions of the respective Legislations.

(3) The Governor of a State or the Administrator of a Union Territory, having a Legislative Assembly may, where he is of opinion that it is necessary in the public interest so to do, request the Comptroller and Auditor General to audit the accounts of a Corporation established by law made by the Legislature of the State or of the Union Territory as the case may be, and where such request has been made, the Comptroller and Auditor General shall audit the accounts of such Corporation and shall have, for the purposes of such audit, right of access to the books and accounts of such Corporation. Provided that no such request shall be made except after consultation with the Comptroller and Auditor General and except after giving reasonable opportunity to the Corporation to make representation with regard to the proposal for such audit.

Laying of reports in relation to accounts of Government Companies and Corporations

19A (1) The reports of the Comptroller and Auditor General in relation to the accounts of a Government Company or a Corporation referred to in Section 19, shall be submitted to the Government or Governments concerned.

(2) The Central Government shall cause every report received by it under sub section (1) to be laid, as soon as may be after it is received, before each House of Parliament.

(3) The State Government shall cause every report received by it under sub-section (1) to be laid as soon as may be after it is received, before the Legislature of the State.

Explanation- For the purposes of this section “Government” or “State Government” in relation to Union Territory having a Legislative Assembly, means the Administrator of the Union Territory.

Audit of accounts of certain authorities of bodies

Section 20

20 (1) Save as otherwise provided in Section 19, where the audit of the accounts of any body or authority has not been entrusted to the Comptroller and Auditor General by or under any law made by Parliament, he shall, if requested so to do by the President or the Governor of a State or the Administrator of a Union territory having a Legislative Assembly, as the case may be, undertake the audit of the accounts of such body or authority on such terms and conditions as may be agreed upon between him and the concerned Government and shall have, for the purposes of such audit, right of access to the books and accounts of that body or authority:

Provided that no such request shall be made except after consultation with the Comptroller and Auditor General.

(2) The Comptroller and Auditor General may propose to the President or the Governor of a State or the Administrator of Union Territory having Legislative Assembly, as the case may be, that he may be authorized to undertake the audit of the accounts of any body or authority, the audit of the accounts of which has not been entrusted to him by law, if he is of opinion that such audit is necessary because a substantial amount has been invested in, or advanced to, such body or authority by the Central or State Government or by the Government of Union Territory having a Legislative Assembly, and on such request being made, the President or the Governor or the Administrator, as the case may be, may empower the Comptroller and Auditor general to undertake the audit of the accounts of such body or authority.

(3) The audit referred to in sub-section (1) or sub-section (2) shall not be entrusted to the Comptroller and Auditor General except where the President or the Governor of a State or the Administrator of a Union Territory having a Legislative Assembly, as the case may be, is satisfied that it is expedient so to do in the public interest and except after giving a reasonable opportunity to the concerned body or authority to make representations with regard to the proposal for such audit.

Section 24

The Comptroller and Auditor General of India is authorised to dispense with, when circumstances so warrant, any part of the detailed audit of any accounts or class of transactions and to apply such limited check to such accounts or transactions as he may determine under Section 24 of the Act.

(Pages 8 to 12 of the MSO (Audit). Second Edition-2002)

Annexure-II
(Referred to in Paragraph 1.06 (vii))

OFFICE OF THE PRINCIPAL ACCOUNTANT GENERAL (AUDIT-I)
GUJARAT, RAJKOT

CIRCULAR –NO-03/17. 12.2019

Ph. 0281-2446836

Ph. 0281-2446837

Email- agau2gujarat@cag.gov.in

STATEMENT

Statement showing the revision of daily rates of Audit Fees due to increase of D.A of 17% (from 12% to 17%) with effect from 01-07-2019

STATE

(Amounts in ₹)

Sr No	Designation	Ahmedabad based Party	Rajkot based Party
1	Assistant Audit Officer(Level -08)	9545	9005
2	Senior Auditor(MACP scale)(Level-07)	9000	8490
3	Senior Auditor(Level -06)	7100	6695
4	Auditor(Level-05)	5845	5515

CENTRAL

For parties conducting audit of offices observing all Saturdays as Holidays.

(Amounts in ₹)

Sr No	Designation	Ahmedabad based Party	Rajkot based Party
1	Assistant Audit Officer(Level -08)	11280	10640
2	Senior Auditor (MACP scale) (Level-07)	10640	10035
3	Senior Auditor (Level -06)	8390	7915
4	Auditor(Level-05)	6910	6515

Approved by Pr. Accountant General's order dated: 16.12.2019

(Sd/-)
Sr. Audit Officer/APM

CHAPTER-II

DUTIES OF HEADQUARTERS SECTIONS

2.01 The main duties of OAD Headquarters Section are:

- i) To prepare tour programmes of the Inspection parties and supervising officers;
- ii) To issue intimation of audit to the offices concerned;
- iii) To collect all relevant files, documents etc. and to dispatch them to the inspection parties;
- iv) To edit the inspection reports received from the inspection parties and to check the accounts, if any, attached thereto before submission for approval;
- v) To scrutinize the replies to the inspection reports, issue further remarks, if any, or take any further action on the same until the points raised in the reports are finally settled;
- vi) To dispose of all general questions relating to the OAD;
- vii) To maintain the registers prescribed for the section in addition to the general registers required to be maintained otherwise;

Note: A list of such register with brief note is given at the end of this chapter as *Annexure-I*

- viii) To distribute office orders, circulars, etc. to the inspection parties;
- ix) To examine the weekly diaries of inspection parties;
- x) To review the outstanding paragraphs in the inspection reports monthly;
- xi) To report delays in the disposal of inspection reports by Heads of Offices to the Finance Department;
- xii) To furnish to the OAD Parties whenever necessary information on the defects noticed in the Central Audit which will be a valuable guide to the parties in conducting local audit by collecting the necessary materials from the concerned audit section.
- xiii) To collect the notes submitted by the OAD Parties regarding delay in answering objections and returning the audit query statements, by the Heads of the offices inspected and to report them to the Finance Department.
- xiv) To prepare draft paragraph for Audit Report relating to Civil Departments for processing in Report Section.
- xv) to maintain an institution-wise register to indicate details of yearly grants/loans sanctioned by the Central/State Governments to authorities/bodies, including details of unspent grants/loans of the previous years and expenditure incurred by such authorities/bodies for determining whether they fall under Section 14 of the Act. At the close of the financial year, the departments should be asked to send a list of grants/loans sanctioned by them, including those sanctioned by subordinate authorities. Information pertaining to other Accountants General should be sent to them and similarly information received from other Accountants General should be posted in the register. When the grant/loan sanctioned, including closing balance of previous years, is not less than ₹25 lakh, the accounts of the authority or body should be called for from Government and scrutinised to determine whether audit under Section 14 is required to be undertaken. The State Government should be asked to

notify the authority/body that their accounts will be audited by the PAG/AG under Section 14 and that they should make available their books of accounts and afford necessary facilities;

xvi) to process requests for audit under Section 19 and 20 of the Act, keeping in view the following factors:

- a) Whether the Government have satisfied themselves that it will be necessary for the CAG to take up the audit in public interest;
- b) Whether the office is adequately equipped to take up the work with due regard to the staff position, availability of trained personnel etc.;
- c) Whether the duties cast on the auditor according to acts, rules regulations, etc., are capable of being adequately discharged and they do not contain any item of work which is not normally undertaken by Audit, such as verification of stores, etc;
- d) Whether audit will be conducted by the CAG's organisation alone or whether there will be primary auditor and in the latter case what are the relative duties of the two auditors and whether such a situation is acceptable;
- e) Whether the results of audit are to be separately reported to the Parliament/Legislature or whether they can be reported as part of CAG's Report under Article 151 of the Constitution;

Note: A formal request is sent by the Government in the name of President/Governor/Administrator for entrusting the audit to the CAG. The standard terms and conditions, and the specimen of the format adopted by GoI, request for audit are given in the *Annexure-II*. The form of request should be suitably modified when the Governor of a State is involved. A time schedule for the annual audit should also be chalked out and also for audit in arrears, if any. Practical difficulties in adhering to the schedule should be reported to Government for remedial action.

(CAG's letter No. 1076/TA-I(RGL)/26.78 dated: 7.11.1978 and No. 2092/TA-I(RGL)/76-78 dated: 30.11.1979).

xvii).To prepares a detailed brief on outstanding paragraphs of previous inspection reports and forwards such briefs to the inspecting parties/officers sufficiently in advance. Copies of the briefs should also be sent to the heads of the offices audited

(CAG's letter No.528-O&M/7-81 V dated: 10.6.81) and

xviii).to prepare briefs for the Group Officer to discuss with the inspecting officers and staff on more important items of work, to send advance copies of the quarterly programme to the Group Officer so that he could participate in such briefing sessions and alert the parties on significant points giving the lines of special investigation and to prepare briefs for periodical meetings (at least once a year the Group Officer with each head of department regarding outstanding inspection report for securing their settlement.)

(CAG's letter No. 528-O&M/7-81 V dated: 10.7.1982).

xix) Conduct statistical sampling from VLC data for selection of vouchers in Local Audit.

(CAG's letter No 284-ISW/185-2003 dtd. 6.2.2004)

2.02 Programme of audit of the Outside Audit Department:

The programme of local audit for the next financial year should be reviewed and drawn up early in January each year. In drawing the programme, the following instructions issued on the subject should be specially borne in mind:

i). List of Auditees

A comprehensive list of all offices under jurisdiction of PAG (Audit-I), of State Government to be locally audited should be drawn up and maintained in APM Section in *Form-I*. While drawing up the list, it is to be ensured that no important office incurring substantial expenditure is left out of the list and among others, as many offices as can conveniently and without disproportionate expenditure to be audited locally are also included in the list. The list should be reviewed every year and kept up-to-date.

ii). Frequency of Audit

Local inspection should not be undertaken when the amount of expenditure to be audited is small. The aim should be to inspect in rotation all accounts in which the cost of inspection as compared with the expenditure to be audited is not disproportionately high. The PAG/AG will decide when the cost of inspection should be considered as disproportionately high. Roughly, if audit costs one per-cent of the amount audited, the expense should be considered reasonable.

(CAG's letter No. 1500/Admn/C/281/NGE-28 dated: 22.12.1928; 544/Admn. /C/42-20 dated: 6.4.1929).

If in any case audit reveals important irregularities, the office concerned may be inspected at more frequent intervals.

The instructions issued by CAG in connection with the frequency and duration of Audit are reproduced below:-

"There has been an enormous increase in the number of offices due to the extension of Governmental activities in various directions as a result of which the expenditure on local audit is also on the increase. A large number of new offices are likely to be established during the coming years. The matter as to how best our man-power can be deployed to meet the situation has also been under consideration for some time. There is the undoubted necessity of the office being locally inspected, but a judicious review of the periodicity of inspection of the existing offices can release some manpower, without materially imparting the efficiency of local audit for inspection of new offices. With this end in view the periodicity of local audit of some categories of offices has been considered on the basis of information available in respect of certain States. While this periodicity is considered sufficient under normal conditions the PAG/AG may vary this if special circumstances in the State justify such variation. It is not necessary to approach CAG for approval. The periodicity of audit of the other types of offices has also to be reviewed and revised frequency of local audit adopted wherever necessary.

The duration of audit for various types of offices has also been considered. Though, it is not proposed to lay down the duration of audit for various types of offices, it is necessary that existing time allocation should be closely reviewed as there is wide variation of time in different States in respect of the similar type of institutions. PAG/AG is, therefore, asked to review the position in this regard so that time allowed for which inspection is adequate and not more than adequate. Such a review is to be carried out every third year."

(Letter No.380-Admn.III/517-61 dated 5.3.1962 from the Comptroller and Auditor General of India)

iii). Audit Plan

(a). A biennial Audit Plan with detailed Audit Plan for the first year has to be prepared and sent for the approval of PAG/AG by 10th January every year. For this purpose, the units and inspection parties are to be categorised as category A, B & C as shown below:

Units – category	Frequency of audit	Duration of audit
A - Units having more than ₹5 crore expenditure excluding establishment expenditure	Annual	8 to 12 working days
B - Units having expenditure between ₹1 crore and ₹5 crore.	Biennial	6 to 8 working days
C - Units having expenditure less than ₹1 crore.	Once in 3 years depending on the availability of staff.	3 to 6 working days

Parties - Category	Composition	Supervision
A	1 Sr.AO 2 AAOs	100 percent
B	2 AAOs or 1 AAO + 2 Sr. Auditors	50 percent
C	1 AAO, 1 Auditor/ Sr. Auditor	As per available manpower

Categorisation of party will change based on review to be undertaken every six months depending on performance by way of contribution to Audit Report material.

(CAG 's D.O.Letter No.1127-Rep(s) 35-2002/04-10-2002)

(b). The Audit Plan should be prepared taking into account the following aspects to achieve better audit objectives:

- i) Utilisation of available man power economically and without any slackness.
- ii) Allocation of man power to all the group activities according to their need and availability.
- iii) Providing specific direction for audit with thrust area approach.
- iv) Introducing cost effective audit and allocating cost for each activity (group) so that scarce resources (manpower, money and time) can be utilised most judiciously.
- v) Giving audit a human face by conducting social audit covering backward districts/regions/ blocks in selective manner. Adequate coverage to be given for poverty alleviation and other social service programmes.
- vi) Making audit more effective in enforcing accountability of executive to ensure proper utilisation of Central Funds and State share on socio-economic development.
- vii) Health Care, Education and Employment Generation should continue to receive more attention of Audit.
- viii) Making Audit more management friendly by providing management support to the auditee through integrated audit of Department.
- ix) Conducting proper risk analysis based on past experience of similar units, budget allotments, media reports, inherent vulnerability to irregularities owing to poor or non-existent internal controls etc.

(c). The Audit Plan should show the total number of units, units proposed to be programmed during the ensuing year indicating the party days. The Audit Plan should then be sent to PAG/AG for approval and final approval by Headquarters.

(d). Based on the Audit Plan approved by the PAG/AG, an Annual Forecast has to be prepared indicating the name of institution, frequency, duration and month/year of last audit. This Annual Forecast should be sent to the PAG (Audit-I) for approval. Please also see (f) below.

(e). The programme should be drawn up in such a way that every office may come under local audit in rotation and with due consideration of the availability of requisite and duly qualified staff for the purpose.

(f). The programme so drawn up should then be communicated to the Finance Department of the State Government with a request to suggest if they want any other office to be included for any special reason in the list for the year. The Department concerned should be given at least a month's time to propose their suggestions. In finalising the list due consideration may be given to the suggestions of the Governments. If the suggestions of the Governments cannot be implemented within the resources at our disposal, it may be necessary to postpone the audit of some other comparatively lesser important office to a subsequent year. The forecast of inspection for the coming year, i.e. the final list of audit, taking into consideration the suggestion of the Governments should then be prepared and put up to the PAG/AG for approval by the end of the first week of March. Copies of finalised list should also be sent to the Governments concerned in the Administrative Department and in the Finance Department to reach them by the 15th of March.

(CAG's D.O. No. 2675-Admn.I/702-55 dated 31/12/1955)

(g). The local audit programme may be organised in such a way as to ensure that the audit of bodies and authorities, corporations and other institutions selected under Sections 14 and 15, is completed according to prescribed schedule. The reviews of schemes selected are also required to be completed with the available staff. The balance of staff is to be deployed on the normal OAD work which should be phased in a suitable manner. In this context, the concept of any "arrears" in local audits should, therefore, not arise. All institutions should be covered in local audit over the period of time without any fixity of schedule.

(CAG's Letter No. 380-Codes.I/41-74/Gr.V dated 5-8-1975).

(iv). Risk analysis

Risk assessment is an essential part of performing a compliance audit. Due to the inherent limitations of an audit, a compliance audit does not provide a guarantee or absolute assurance that all instances of non-compliance will be detected. Inherent limitations in a compliance audit may include factors such as:

- a) Judgement may be applied by the executive in interpreting laws and regulations;
- b) Human errors;
- c) Systems may be improperly designed or function ineffectively;
- d) Controls may be circumvented; and
- e) Evidence may be concealed or withheld

In performing compliance audits, auditors assess risks and perform audit procedures as necessary throughout the audit process. This is done in order to reduce audit risk to an acceptably low level in the particular circumstances, so as to obtain reasonable assurance

to form the basis for the auditor's conclusions. The risks and the factors that may give rise to such risks will vary depending on the particular subject matter and circumstances of audit. Results of the risk assessment would again affect the sampling considerations.

(Para 4.13 and 4.14 of Compliance Auditing Guidelines 2016)

v). Review of frequency, duration etc. of local audit:

In order to facilitate review of the frequency, duration, etc. of local audits, the Supervising Officers and AAO should record in a separate report their impressions regarding the state of accounts and the time required for their audit and make suggestions for increasing or decreasing the extent of local audit of the institutions inspected by them. There may be cases of some offices where improvements in the maintenance of accounts have taken place in which case it is but proper that the frequency and quantum of local audit are reduced. Where the offices have shown no marked improvements or where there are other special circumstances which call for such action, it would be necessary to intensify the local audit of the institution. It should be noted that the object of the report and the review in the Central Office is to ensure that the limited manpower at our disposal is utilised to the maximum advantage. The report should invariably accompany the inspection reports sent to the Central Office by the Inspecting parties.

The Headquarters sections should examine the suggestions and obtain Group Officer's approval, wherever needed, for modifying the time allowed for a particular audit.

(vi). Procedure for drawing up programmes:

A quarterly programme of each audit party will be framed by not later than the 15th of the last month of the previous quarter on the basis of the Annual Forecast approved by the PAG/AG.

The quarterly programmes will show the offices to be audited by each inspection party and the date of commencement and termination of each audit. For parties touring outside, the programmes will provide for periods of transit from one station to another. The following points should be borne in mind in preparing the programme.

(i) The audit of offices or institutions which enjoy periodical vacations such as schools and colleges should not be fixed on dates falling within such vacations.

(ii) If in any office, store accounts or proforma accounts also are to be audited, its inspection should not be taken up before such accounts are made ready. Wherever possible, a previous enquiry should be made as to the readiness of those accounts before fixing up the inspection of the respective offices.

(iii) When the store accounts or proforma accounts of an office are to be audited that fact should be indicated against the name of the office in programme.

(iv) A copy of the approved programme should be supplied to the respective AAOs and the officers who supervise the audits, the concerned OAD Sections and their branch officers.

(v) Tour programmes should be drawn up in the most economical manner and also having regard to the convenience of the office audited. Some departments have indicated the period when they will be busy and this should be taken into account while preparing the programmes. When inspections of new offices or new accounts have been provided for in the programme, the authority for their inclusion should be quoted.

(vi) The programme should be drawn up in such a manner that the same districts are not visited by a number of audit parties during different periods of the year except in very unavoidable cases.

(vii) The tour programme should be arranged in such a manner that journey to the same side is not undertaken more than once unless required on account of special reasons. A party visiting a particular district Headquarter should be allotted as far as possible all offices within that district which are to be inspected during that quarter.

(CAG's letter No.1354-Tech.Admn VI64-65 dated:21.8.1964).

(viii) (a)(i) The time allowed for local audit of a unit should not be exceeded without prior approval of the Group Officer (Inspection) in all the cases wherever possible and where this is not possible as soon as possible after the event. In applying for extension the circumstances which render extension or deviation necessary should be fully stated. It should also be stated, whether it will be possible to complete the whole tour within the time allotted by reducing the time for any other unit.

(ii) No departure from the sanctioned programme is permissible without the approval of the Group Officer (Inspection) except in emergent cases when important defects of procedure, irregularities, frauds or embezzlements are revealed or suspected during the course of local audit and the cases need special investigation involving extra time. The facts should at once be reported to the Group Officer (Inspection) with full justification of the change for his approval. The inspection staff, however, must understand that they will be liable to bear the extra cost in T.A., if any necessitated due to change effected in the programme, if the changes made by them are disapproved without prejudice to any other action that may be found necessary to be taken against them.

(viii) (b) If in any office the Inspecting Officers finds that the time allowed is in excess of requirement he should immediately bring the fact to the notice of Headquarters for considering further action in the matter. If the time allowed is more or less the same as for the previous local audit of the same establishment the reasons due to which the time is expected to be saved during the current audit should be analysed and stated.

(viii) (c) Extension in time should not be applied for on trivial grounds such as casual leave of the assistants of the party, heavy months selected for detailed audit by the Central Audit Sections, unsatisfactory maintenance of accounts records etc. The requests for extension on grounds of volume of work should however, be supported by statistical data justifying the request. In the case of supervised inspection the request must bear definite recommendations of Inspecting Officer. The programme should be adhered to by making extra efforts.

(ix). Holidays and Sundays may be marked as transit days.

(CAG's letter No.2396-Admn.I/528-62/dated: 11.9.1962 addressed to this office).

Copies of the programme should be sent to the PAG (Audit-II), Ahmedabad and the RAO (PAO), wherever necessary-

(x). Before the beginning of each quarter, a list of audits which will be completed in that quarter should be prepared and the items which are to be supervised by an inspecting officer should be selected by the Group Officer. Thereafter, the tour programme of the Inspecting Officers should be prepared for approval by the Group Officer.

(vii). Local audit of contingent expenditure by Receipt Audit parties:

It has been decided that as in the case of Central Receipts where audit of State Receipts has been undertaken by the State Accountants General (Receipt Audit Wing) the audit of contingent expenditure incurred by the various disbursing officers in the revenue department concerned (other than Directing Offices) may be entrusted to the Receipt Audit Parties visiting these offices.

(Authority: CAG's Letter No. 101-Rec/A.III/145-72-III dated 18-4-1973).

2.03 Intimation regarding taking up of audit.

1. Just after approval of tour programme the intimation should be sent by the AAO of the Headquarter concerned at least three weeks in advance of audit so as to enable the local office to get ready for the audit in time or seek postponement in case of some unavoidable circumstances warranted. The audit intimation should invariably contain a request that the head of the office or any other officer representing him should be present during the period of audit and especially on the closing day of audit so that he may be able to discuss the Draft Inspection Report.

(Regulation No 177 of Regulation on Audit and Accounts 2007)

2. Intimation of the date of inspection in respect of the 1st office/institution to be audited by the inspection staff should be sent by the concerned AMG groups to the head of office to be inspected in the *Annexure-III* to this chapter along with the list of records to be kept ready by the office to be inspected. Subsequent intimation of programmes may be sent by the concerned party.

The list of records in respect of civil offices, audit under Sections 14, 15, 19 and 20 of CAG (DPC) Act. 1971 are also given in the *Annexure-IV* to this chapter.

Except in regard to special audit, Audit intimation memoranda should be sent to the head of office concerned at least three weeks before the commencement of each inspection.

(Authority: CAG's letter No.2675/Admn/I/702/55 dated 31.12.55 and No.975/TA5/191/69 dt 2.7.69)

2.04 Tour Programme of Group Supervising Officers/Sr. Audit Officers:

(a) It has been decided by the CAG of India that the Group Supervising Officer of OAD in the Office of the PAG/AG, whether civil, commercial or revenue audit should do an average a minimum of 07 days inspection in a month. Supervision of field units by Group Officer should be enforced strictly and his own contribution during tour should be mentioned in a tour note. A minimum of 5 days must be spent by the Group Officer outside their headquarter station. When supervising the audits including those at their Headquarters station, the Group Officers must spend the whole day with the audit party and not merely a part of the day.

(b)The tour programme of the SAO supervising the field parties is approved by the Group Officer. Copies of the approved programme should be supplied to the officers concerned.

(CAG.s Cir. No. 4-Audit (AP)/236-95 dated 25/6/2007 and CAG Cir No01-PPG/2013 dated 25-09-2013).

2.05 Calendar of Returns:

A Calendar of Returns shall be maintained by the AAO of the Headquarters section in order to observe the due dates prescribed for the various items of work. The actual date

on which the work is completed should be filled in by the AAO in each case and the Calendar of Returns submitted to the Branch Officer every Monday, and to the Group Officer on the 1st Monday of each month along with the monthly arrear reports. Some of the important returns to be submitted/ sent are indicated in ***Appendix-I*** For detailed instructions regarding the maintenance of calendar of returns, Para 5.01 of the Manual of General Procedures may be referred to.

Annexure-I

(Referred to in paragraph 2.01 (vii))

Registers to be maintained in Headquarters Section

(i) **Register of local audit**

For the purpose of drawing up the audit programme, district-wise registers is maintained at headquarters in **Form-I** showing the several institutions under local audit, their periodicity, time allowed for audit, dates of last audit, etc. The details in this register are regularly updated as and when the audit is conducted (referred in to Para 2.02(i))

The register thus contains an up-to-date list of institutions under local audit for guidance of the section in the preparation of the programme.

(ii) **Register for noting points to be examined during local inspection:**

A register in **Form II** is maintained by the section according to the departments for noting points which should be examined during the course of local inspection. Whenever other sections come across points which merits examination in local audit, information thereof should be furnished to OAD (H.Qrs.) section after approval by the Group Officer.

Cases so reported for examination during local inspection are included in the register by the OAD (HQrs). The points outstanding from previous inspection reports are also to be briefly noted in the register, after a prescribed period, say three months before the next inspection. Not more than one entry should be made on one page and each entry should be attested by the AAO. The register should be submitted to the Branch Officer on the prescribed date of each month.

Extracts from this register are sent to the Inspecting Officer, along with the connected files or inspection reports for his examination and report. On receipt of his report the points are dealt with in the usual manner and the final disposal recorded against each point in the register under the dated initials of AAO giving reference to the orders on the connected file.

(iii) **Register for watching the receipt and issue of the Inspection Reports:**

This register is maintained in **Form-III** (SY.336). The timely submission of inspection reports by the audit parties, their submission by OAD (HQrs) Sections to the Group Officer within the time fixed and the final issue of the report in time are watched through this register (see para 8.05 of this Manual)

(iv) **Register to watch progress in the Settlement of Inspection Reports.**

This register has to be maintained in the form prescribed by Comptroller and Auditor General subject to minor modifications to suit local requirements, if any. The specimen is given in **Form-IV** (SY.328) (see Para 8.11 of this Manual.)

(v) **Objection Books.**

Para 7.2.2 of the MSO(Audit) Second Edition-2002 requires that the objections in the Inspection Reports which can be expressed in money value should be registered in the objection books (**Form-XI**) of the Central Office. The Auditor and AAO, OAD (HQrs) Section should examine all paragraphs of the report and certify on the office copy that all objections raised therein which should be registered in the objection book have been duly posted. Cross reference to item numbers of the objection book against the paras of

the inspection report should be quoted for facility of reference. (Referred to in Para 8.10(i) of this Manual.)

(vi) **Register of Financial Irregularities.**

All important cases of financial irregularities detected during local audit, which appear to be fit for inclusion in the Audit Report, should find a place in the Register of Financial Irregularities (*Form No-XII*. SY.286-A) and the disposal of all such cases upto the receipt of final orders from the Government should be watched through it. Prompt reminders should be issued in the case of all outstanding items and the register should be submitted for review to the Group Officer every month. At the time of submission, the AAO will indicate which of the irregularities noted therein have been finally settled and which are ripe for inclusion in the Audit Report. In the case of the latter, paragraphs should at once be prepared, if not already done, and submitted with the register to the Group Officer for approval (see Para 8.15 of this Manual).

(vii) **Check Register of Weekly Diaries.**

A check register of weekly diaries of the members of audit parties should be maintained in OAD (HQ) Section in Form SY.3259 (*Form-XIV*). The relevant columns of this register have to be carefully filled up with reference to the diaries forwarded by the local audit parties in Form SY.324 (*Form No.-XIII*)

For details of procedure in the parties and in the headquarters, please see para 3.21

(viii) **Register for watching recovery of cost of audit.**

Audit fees according to the daily rates fixed by the Government of India have to be recorded in appropriate cases. A register in *Form-V* (SY.338) should be maintained in the section to watch the recovery of audit fees. The register should be submitted monthly to the Branch Officer and quarterly to the Group Officer (Referred in Para 1.06 of this Manual.).

(ix) **Check Register for T.A. Bills.**

This register has to be maintained in *Form-VI*. This is intended to record the receipt of T.A. Bills of the local audit parties as well as the Inspecting Officers. The TA bills of the members of the local audit parties are to be verified by OAD (HQrs) with reference to the programme of the party, diaries, leave etc.

(x) **Register of deviation in the local audit programme and tour programme of Inspecting Officer.**

This register has to be maintained in *Form-VII*.

(xi) **Register for watching the receipt and issue of lists of objections and other documents sent to the Local Audit Parties for verification:**

This register has to be maintained in *Form No.-VIII*.

(For details of procedure refer Chapter 3 of para 8 (a)).

(xii) **Register of Potential Draft Paras.**

The register may be maintained in the prescribed *Form No.-XVI*.

It is desired that one page may be set apart for each case so that gist of further developments till it is processed into Draft Para case be recorded. The register should be

closed monthly and submitted to PAG/AG. Closing should clearly indicate age-wise analysis of pending items and specify their serial numbers.

In addition to the above, following registers are also required to be maintained by OAD HQrs.

1. Register of serious irregularities
2. Register of draft paras for inclusion in the Audit Report
3. Auditor's Note Book
4. Departmental Note Book
5. Attendance Register
6. Casual Leave Register
7. Dictionary of Reference
8. Register showing strength of outside audit department
9. Register showing the charges held by auditors in the Central Office
10. Register of files (by each Auditor)
11. Register of pending cases
12. Register of NCC camp expenditure
13. Transit Register
14. Inward Diary Register of:-
 - i) Letters from Government
 - ii) General Letters-
 - iii) Telegrams and Telex Communications
 - iv) Confidential Register
 - v) Unofficial References
 - vi) Letters from CAG
 - vii) Demi-Official Letters
 - viii) Letters from other Sections
 - ix) Inspection Reports
 - x) Verification Notes of previous inspection
16. Outward Diary Register of letters
17. Reminder Register
18. Complaint Register
19. Register to watch action taken by Government on the recommendations of P.A.C.
20. Register of draft paras received from the field parties
21. Register of misappropriations
22. Register of stock paras
23. Register of Stores and Stock Accounts
24. Register of watching non-receipt of vouchers from field parties
25. Register for watching cases reported to Government
26. Register for corrections to OAD Manual
27. Register of objections raised by Director of Inspection, New Delhi
28. Register of Omnibus paras
29. Register of irregular utilisation of Central Assistance noticed during local audit
30. Assistant Audit Officer Note Book
31. Register of Audit fees
32. Register of sanctions received from Government of India

Note: - Registers at Sr. No.5, 6, 14, 15, 16, and 18 are maintained by Clerk.

Annexure-II
(Referred to in Paragraph 2.01 (xvi)(e))

No:

Government of India,
Ministry of Finance,
Department of Economic Affairs,
New Delhi.
Date:

To,
The Comptroller and Auditor General of India,
New Delhi.

Subject: Entrustment of audit of accounts to the Comptroller and Auditor General of India under section 20 of the CAG (DPC of service Act, 1971).

Sir,

I am directed to state that the President of India is pleased to request the Comptroller and Auditor General of India to undertake the audit of the accounts of _____ in terms of Section 20 of the CAG's (Duties, Powers and Conditions of Services) Act, 1971.

2 As required under the said section, the office of the Comptroller and Auditor General of India has been consulted vide their U.O. No. _____.

3 Provisions of sub-section (3) of Section 20 of the said Act are satisfied in this case.

4 The terms and conditions for conducting the audit of the accounts of the said Institution/Body/Authority shall be as indicated in the annexure hereto.

Yours faithfully,

Officer on Special Duty (Budget).


Annexure-II

TERMS AND CONDITIONS

- 1 Any expenditure incurred in connection with the audit will be payable by the body to the Comptroller and Auditor General of India.
- 2 The Comptroller and Auditor General of India or any person appointed by him in connection with the audit shall have the same rights; privileges and authority the CAG has in connection with the audit of Government accounts.
- 3 The result of audit will be communicated by the CAG or any person appointed by him to the Governing body who shall submit a copy of the report along with its observations to the Government. The CAG will also forward a copy of the report direct to the Government.
- 4 The audit is entrusted to the CAG in public interest for period of 5 years in the first instance, subject to review of arrangement after that period.
- 5 No other auditor will be appointed for any purpose whatsoever in connection with the accounts of the body (except with the prior approval of the CAG).
- 6 The scopes, extent and manner of conducting audit shall be as decided by the Comptroller and Auditor General.
- 7 The CAG will have the right to report to Parliament/State Legislature the results of audit, at his discretion.

Annexure-III
(Referred to in Paragraph 2.03 (2))

By Speed Post/FAX

 <p>लोकहितार्थं सत्यनिष्ठा Dedicated to Truth in Public Interest</p>	No. Office of the Pr. Accountant General (Audit-I), Annexe Building, Race Course Road, Gujarat, Rajkot-360 001. Date:
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To,

Sir,

Financial /Compliance Audit of the accounts and / or transactions of _____ **(Name of Unit)** , **District-** _____ for the period _____ under Section _____ of CAG's (DP&CS) Act 1971 will be taken up by the audit team of this office from _____ **(Date)**. The audit team will be headed by _____, Sr. Audit officer/Asstt. Audit Officer, Mob: _____, Office ID No. _____.

2. Broad objectives of audit are as under:
(Compliance audit)

- (i) To confirm whether the activities of government/public sector entities are in accordance with the relevant laws, regulations and authorities that govern such entities. More specifically, it may involve examining to what extent the audited entity follows rules, laws and regulation, budgetary resolutions, economy instructions, policy, established codes, or agreed upon terms, such as the terms of a contract or the terms of a funding agreement.
- (ii) System of internal control internal audit in relation to budgetary assumption, financial statements, compliance and financial reporting;
- (iii) To audit Transparency and competitiveness in contracts and procurements;
- (iv) To examine and report upon propriety in expenditure that has a significant bearing on mandate/operations and budgetary grants of the organization/entity.
- (v) Value for money derived from individual or a set of material transactions;
- (vi) To examine the stores and stock accounts, where applicable;
- (vii) Banking and cash management issues (in case of autonomous bodies); and
- (viii) Audit the IT applications, etc.

(Financial Audit)

- (a) Financial statements are prepared in accordance with acceptable accounting standards/rules.
- (b) Financial statements are presented with due consideration to the circumstances of the audited entity;

(c) Sufficient disclosures are presented about various elements of financial statements;

(d) The various elements of financial statements are properly evaluated, measured and presented; and

(e) Evaluation of the internal control that assist in safeguarding assets and resources, assures the accuracy and completeness of accounting records and in compiling with financial laws and regulations.

3. The period covered under the audit shall be from _____(**Period of Audit**) under Section _____ of CAG's (DP&CS) Act 1971 and which may also include examination of documents/transactions of the previous year's, considered relevant by the audit team.

4. Consistent with contemporary, professional practice and provision in CAG's Regulations on Audit and Accounts 2007 (Regulation 183) our audit team would seek an entry conference at appropriate top/senior level, having control and authority over the subjects under the present audit. The entry conference will be an opportunity for the audit team to explain the audit objective criteria and examination of the internal control system.

It is desirable that the entry conference is held on the first working day of the audit period.

On the conclusion of the audit, the audit team would request you for an exit conference (Regulation 191) in which audit findings communicated to the auditee will be discussed.

5. The request for entry and exit conferences will be made formally by the Head of the Audit Team. We request you to kindly make it convenient to hold the meetings on the opening and closing days of audit respectively.

6. Our audit shall be conducted with reference to the Auditing Standards and Regulations on Audit and Accounts -2007 issued by the Comptroller and Auditor General of India under

7. Under Section 18 of the Comptroller and Auditor General of India's (Duties, Powers and Conditions of Service) Act 1971 it is the responsibility of the person in charge of any office or department, the accounts of which have to be inspected and audited by the Comptroller and Auditor General of India to afford all facilities for inspection by the audit team and comply with the request for information in as complete as a form as possible and with all reasonable expedition. Our audit team shall request for information and documents, indicating the expected time within which these may be provided. We expect that the documents held by the auditee should be available within the same day and the information would be made available within the time indicated in the information seeking memo.

8. Attention is drawn to Regulations 169, which provides that the form type and extent of date, information and documents required for audit test and the nature of shall be determined by audit officer and that the data, information and documents would also include those obtained by auditable entity from the third party and relied upon by the auditee in its performance of functions.

9. We also draw your attention to Regulation 172, which enjoins that where required by audit in special circumstances the auditable entity shall conduct physical verifications of stores, stocks, assets etc, in the presence of the audit officer.

10. We request you to please provide appropriate and reasonable office accommodation and other office amenities to the audit team similar to the facilities available for the personnel of the organization.

11. We suggest that you may nominate a liaison officer sufficiently senior level for day to day coordination in the audit functions.
12. We bring to your kind notice that in the event of unreasonable delay in supply of information and documents leading to partial, selective or complete withholding of data/information leading to material scope limitation, the audit team may be compelled to suspend the audit after bringing it to the notice of the head of the office in writing and bring the matter to the notice of higher management.
13. While compilation of information requested for by audit may require sometime furnishing of documents held by the auditee organization should be made within the same day since these are readily available.
14. It may be mentioned here that failure to produce necessary record/documents or to respond to the clarifications sought by the audit team would tantamount to preventing a Government officer from performing his/her duties and could, therefore, invite action under section 175-186 of the Indian Penal Code.
15. Our audit teams have been directed to return the documents as soon as their examination is over. We expect to issue an inspection report containing the results of audit within 30 days of conclusion of audit for the response of the department.
16. We will acknowledge the acceptance of audit findings and conclusions and remedial measures assured / taken by the auditee organizations in our inspection report if remedial measures are taken during the course of audit itself.
17. We hope that your office maintains a file register/register of documents held along with the cash book will be required on the very first day of audit. These and other documents forming the basis of information furnish with reference to the questionnaire.
18. Depending upon the volume of work and supply of information/documents the period of audit may be extended.
19. We bring to your kind notice that our team would expect only working environment assistance in their day to day working and documents and information and nothing more. Should you feel it necessary to consult senior officers you are most welcome to contact the Senior Deputy Accountant General/Deputy Accountant General of audit at telephone numbers 0281-2441238 and their e-mails ----- and, if necessary, even the Pr. Accountant General (Audit-I) at telephone number 0281-2446836/37.

Kindly acknowledge the receipt.

Yours sincerely,

Enclosure:

SAO/AAO/ APM

Annexure- III (Enclosure)
Details/Information to be kept ready.

1. Name(s) of officers in charge of the office since last audit and the period(s) of charge.
2. Details of attached sub offices or units, if any.
3. Staff Strength – sanctioned and actual (category wise).
4. Number of Service Books – (a) maintained, (b) Produced to audit and (c) reason for non-production, if any.
5. List of persons due to retire within 5 years from the scheduled date of audit.
6. List of persons who are not admitted to GPF/SLI.
7. Details of last departmental /internal audit such as:
Dates of inspection and the authority who conducted the inspection;
 - (a) period of accounts covered, and
 - (b) present stage of the report.
8. Gross expenditure during the last financial year;
 - (a) Establishment,
 - (b) Non-Establishment.
 - (c) A statement showing month wise expenditure on Pay and Allowances of Offices, Pay and Allowances of Establishment, Contingent (sub head wise) and grant-in-aid (including subsidy loan etc.) if any for the period from _____.
9. Amount of Permanent advance sanctioned. A statement showing the month wise expenditure met out of permanent advance sanctioned for the office during the period from _____ (The number and date of sanction order should also be indicated in the statement).
10. Total Gross Revenue collected during the last financial year and the nature of revenue. A statement showing the month wise receipts of the office, if any (minor head wise) for the period from _____.
11. A statement showing all the accounts, documents and registers maintained in the office.
12. List of non-Government accounts maintained.
13. List of accounts maintained with Commercial Banks, Co.Op.Banks /Societies, Govt. Treasuries.
14. Number of Subsidiary cash books, if any, maintained.
15. List of purchases exceeding ₹1000/-
16. List of Officials against whom disciplinary action is taken.
17. List of cases of theft, loss, embezzlement, or misappropriation of Govt. money /property.
18. List of previous Inspection Reports/ Paras pending settlement.

Annexure-IV
(Referred to in Paragraph 2.03 (2))

List of records to be seen by the audit in civil offices under Section 13 of CAG (DP &CS) Act, 1971.

CIVIL OFFICES

1. Cash Book (including subsidiary Cash Book, if any)
2. Pass Books, Cheque Books, Counterfoils of used cheques, stock register of cheque books and Bank reconciliation statement in respect of Bank/Treasury accounts
3. Receipt Books and Register of Receipt Books.
4. Acquaintance Rolls.
5. Challan Receipts and Register of Challans.
6. Contingent Register.
7. Treasury Bill Book.
8. Register of Bills endorsed.
9. Pay Bill Register with Abstract of Pay Bills.
10. Special Advance Register
11. Loan Register and file.
12. Stamp Accounts and dispatch Register.
13. Log Book of vehicle and Register of replaced spare parts.
14. Maintenance and Repair accounts
15. Register of Incumbents.
16. Service Books and Register of Service Books.
17. Register of Furniture & other office stores
18. Register of Land & Buildings
19. Auction Register
20. Stock Register of Books & periodicals
21. Register of Tenders
22. Copies of sanction for retention & continuation of post & other records.
23. Register for watching utilization of Loans & Advances
24. Survey Report of Stores & Stock (including machinery, tools & equipments which have become unserviceable)
25. Sale Account
26. Register of Valuable documents
27. Register of Permanent Advances.
28. Register of Cheques presented at Treasuries
29. Register of undisbursed pay etc.
30. Register of Inspection Reports and outstanding IRs.
32. Register of Audit Objections
33. Payment vouchers/sub-vouchers/contingent vouchers, loans.
34. Register of retrenchment.
35. T.A. bills/medical reimbursement bills and registers.
36. Leave accounts.
37. G.P.F./C.P.F. Accounts of Class-IV employees.
38. Register of bank draft/Money Order etc.
39. Measurement books.
40. Muster rolls.
41. Works accounts.
42. Stationery register.

- 43 Register of forms.
- 44 Increment register.
- 45 Establishment audit register.
- 46 Register of agreements/Contracts.
- 47 Records of deposits and refunds/lapsed deposits.
- 48 Stores and stock accounts
 - a) Annual stock returns.
 - b) Write-off files.
 - c) Physical verification reports etc.
 - d) Stores ledgers.
 - e) Purchase files etc.
 - f) Disposal of obsolete, surplus of unserviceable store files.
- 49 Treasury/bank pass and remittance books.
- 50 Records/register relating to loans and advances.
- 51 Railway warrant records.
- 52 Attendance register.
- 53 Casual leave/restricted holidays account.
- 54 Imprest accounts.
- 55 Appropriation register/budget estimates.
- 56 Register of machines/vehicles.
- 57 Petrol register.
- 58 Livestock register and fodder account.
- 59 Internal audit reports.
- 60 Register of periodical charges i.e. rent, rates and water charges.
- 61 Register of liveries.
- 62 Register of scholarships, stipends etc.
- 63 Register of temporary advances.
- 64 Register of honorarium.

A In the office of Grantee institutions/authorities

List of records to be seen in audit of accounts of institutions/authorities substantially financed from Union or State under section 14 of CAG's (DPCS) Act, 1971.

- 1 Cash book
- 2 Payment voucher/Sub-vouchers/Contingent vouchers
- 3 Register of cheque books and cheques
- 4 Register of receipt books and receipts
- 5 Bill register
- 6 Contingent register
- 7 Establishment pay bills and acquittance rolls
- 8 TA/Medical/Over Time Allowance etc. bills and register
- 9 Service books and leave accounts
- 10 GPF/CPF accounts, if maintained
- 11 Register of bank drafts with numbers etc.
- 12 Stamps accounts
- 13 Log book of vehicles
- 14 Stationery register
- 15 Register of forms
- 16 Establishment audit register
- 17 Increment register

- 18 Tenders and contracts
- 19 Records of deposit and refunds
- 20 Telephone/Trunk call register
- 21 Stores and stock accounts
- 22 Treasury/Bank pass book and remittance books
- 23 Records/Register of loans and advances
- 24 Register of valuables
- 25 Register of land, buildings and rent
- 26 Permanent advance register
- 27 Attendance register, C.L. register etc.
- 28 Register of library books
- 29 Register of undisbursed amount
- 30 Imprest accounts
- 31 Dead stock register
- 32 Budget records
- 33 Register of machines/vehicles
- 34 Internal audit reports
- 35 Constitution of body
- 36 Subsidiary books and accounts
- 37 Journal entries
- 38 List of grants/loans received by the body and its utilisation
- 39 Sundry debtors accounts
- 40 Sundry creditors accounts
- 41 Documents/files relating to finalisation of grants
- 42 Bank reconciliation statement
- 43 Ledgers
- 44 Trial balances
- 45 Depreciation accounts
- 46 Details of utilisation certificates furnished during the period for which accounts is under audit
- 47 Register of assets purchased out of amount of grants and disposal
- 48 Policy and programme drawn up for the period
- 49 Progress report on the implementation of policies and programmes sent to administrative department
- 50 Register of grants-in-aid
- 51 Sanctions of grants-in-aid received
- 52 Register of utilisation certificates
- 53 Utilisation certificates issued and their case files
- 54 Cash books, vouchers, receipts books and pertinent records.

List of the records to be seen in audit of institutions received Grant-in-aid (Section 15 of CAG's (DP&CS) Act, 1971).

B In the office of Administrative Officer and Head of Department.

- 1 Grant-in-aid/loan rules.
- 2 Sanctions for grant/loans accorded during the period under audit.
- 3 Register of grant/loans sanction and their utilisation.
- 4 Utilisation certificates and pertinent record.
- 5 Internal Audit Report.
- 6 Implementation reports received from grantee/loanee.
- 7 Files of audited statement of accounts.
- 8 Files relating to inspection of grantee/loanee, institution.

9 Register of assets created out of Government grant.

List of records to be checked in audit of autonomous bodies and authorities under section 19 and 20 of CAG's (DPCS) Act, 1971.

- 1 Cash book
- 2 Receipts
- 3 Payment vouchers
- 4 Bank reconciliation
- 5 Subsidiary books of accounts
- 6 Journal entries
- 7 Payment of staff pertinent records
- 8 Expenditure on wages
- 9 Office contingencies
- 10 Stores and stock accounts
- 11 Works records
- 12 Advances to staff
- 13 Advances to suppliers
- 14 Loans raised by autonomous bodies
- 15 Loans disbursed by autonomous bodies
- 16 Grants received by autonomous bodies
- 17 Financial assistance received/rendered by autonomous bodies
- 18 Sundry Debtors accounts
- 19 Sundry Creditors accounts
- 20 Fund accounts and investments thereof (other than P.F. account)
- 21 Scholarships, stipends etc.
- 22 Provident Fund and other fund accounts of employee
- 23 Budget provision
- 24 Check of final accounts pertinent record
- 25 Constitution of the autonomous bodies
- 26 Trial balance
- 27 Ledgers
- 28 Depreciation accounts
- 29 Register of assets purchased out of amount of grant
- 30 Policy and programmes drawn up for the period under audit
- 31 Progress report on the implementation of policies/programmes sent to administrative/ sanctioning department

CHAPTER-III

PROCEDURE DURING INSPECTION

3.01 Scope of Inspection and local audit

i) The broad outline of duties and responsibilities allocated to various categories of personnel in Civil Audit parties is furnished in Annexure 2.9.1 to the Manual of Instructions for Restructuring of Cadres in IA & AD and is given in **Appendix-II** of the Manual. The scope of inspection and local audit is dealt with in Section VI of the MSO (Audit) Second Edition -2002. The instructions given below are supplementary to the provisions contained therein.

ii) The primary function of local audit is to verify the accuracy and completeness of accounts. All possible attention should, therefore be devoted to the examination of initial records and accounts. The AAO and Auditors should not make any relaxation on their own accord. It is, however, very important that the prescribed checks are observed in their spirit and not in their letter as opposed to the spirit.

iii) (a) As the object of the accounts is to present a true financial picture, intelligent and proper audit requires visualising of all financial transactions in their proper perspective as a whole and not merely the examination of the details of the transactions which work to the final result. The inspecting staff should also, prior to taking up the audit of the accounts of any particular institution, make themselves conversant with the nature of transactions, the system of accounts, the account books prescribed, the budget, departmental manual and the administration report or any other Government publication in order to obtain a correct perspective of the financial side of the institution. In such and similar ways they should make their audit both intelligent and useful instead of allowing it to become merely a process of checking registers in a mechanical way.

(b) The INTOSAI (International Organisation of Supreme Audit Institutions) has adopted a Code of Ethics for auditors in the public sector and restructured Auditing Standards in its XVIIth Congress in Seoul in 2001. These auditing standards have been suitably adapted with due consideration of the Constitution of India, relevant statutes and rules for the auditing standards for the Supreme Audit Institution (SAI) of India i.e. CAG.

(c). **Code of Ethics:** A Code of Ethics is comprehensive statement of values and principles which should guide the daily work of auditors. The independence, powers and responsibilities of the public sector auditor places high ethical demands on the SAI and the staff they employ or engage for audit work. A Code of Ethics for auditors in the public sector should consider the ethical requirement of civil servants in general and the particular requirements of auditors including latter's professional obligation.

The Code requires that:-

- i) The conduct of auditors should be beyond reproach at all times and in all circumstances.

- ii) The auditors should adopt and apply the ethical requirements of integrity, independence, objectivity, confidentiality and competence so that the SAI is looked upon with trust, confidence and credibility.
- iii) It is important to maintain both actual and perceived political neutrality. The auditors should maintain their independence from political influence in order to discharge the audit responsibility in an impartial way.
- iv) Auditors should protect their independence and avoid any possible conflict of interest by refusing gifts or gratuity which could influence or be perceived as influencing their independence and integrity.
- v) Auditors should not use information received in the performance of their duties as a means of securing personal benefit for themselves or for others. Neither should they divulge information which would provide unfair or unmeasurable advantage to other individuals or organisations nor should they use such information as a means for harming others.
- vi) Auditors should not disclose information obtained in the auditing process to third parties either orally or in writing except for the purpose of meeting the SAI's statutory or other identified responsibilities as part of the SAI's normal procedure or in accordance with relevant laws.
- vii) Auditors should conduct themselves in a professional manner at all time and to apply high professional standards in carrying out their work.
- viii) Auditors should not undertake work they are not competent to perform.
- ix) Auditors should exercise due professional care in conducting and supervising the audit and in preparing related reports.
- x) Auditors should use methods and practices of the highest possible quality in their audit. In the conduct of the audit and the issue of reports, auditors have a duty to adhere to basic postulates and generally accepted auditing standards.
- xi) Auditors have a continuous obligation to update and improve the skill required for the discharge of their professional responsibilities.

Prior to commencement of an auditing assignment, all members of the audit party, including the supervising Group Officer, should give individual undertakings in the format given in *Annexure-I* to this chapter. Auditors should protect their independence and avoid any possible conflict of interest by refusing gifts or gratuities which could influence or be perceived as influencing their independence and integrity. Similarly, all individuals working for or on behalf of the SAI who are engaged in assisting him in the discharge of his duties and responsibilities as enshrined in the Constitution of India should give an undertaking in the format given in *Annexure-II* to this chapter.

(Authority: Para 3.24, Code of Ethics for IAAD, August, 2012)

(d) **Auditing Standards**

The Auditing Standards prescribe the norm of principles and practices the auditors are expected to follow in the conduct of audit. The auditor must exercise due care and concern in complying with the Auditing Standards.

(Para 2.1.2 of MSO (Audit), Second Edition, 2002)

As mentioned in Para 3.0.1 (b), CAG has adopted restructured Auditing Standards of INTOSAI to suit the situations prevailing in India. The Auditing Standards consist of three parts viz.;

- A. Basic Postulates
- B. General Standards
- C. Specific Standards

The main points contained in the Auditing Standards are given below.

A. Basic Postulates

These standards establish the norms which are applicable to all public sector audit engagements and incorporate the Prerequisites for the functioning of Supreme Audit Institutions and Fundamental Auditing Principles of the International Standards of Supreme Audit Institutions. These standards determine the audit procedures that shall be applied in audit and constitute the criteria or benchmark against which the quality of audit results is evaluated.

Prerequisites for functioning

The pre-requisites constitute the principles that are essential for the functioning of SAI, India and for proper practice of public sector auditing within the SAI.

- Independence
- Accountability and Transparency
- Ethics
- Quality assurance

Independence

An adequate degree of independence from both the Legislative and Executive branch of the Government is essential for the conduct of audit and for the credibility of its results. Independence of a Supreme Audit Institution (SAI) is secured through certain principles and conditions that are institutionalised through established mechanisms and processes.

Accountability and Transparency

Accountability and transparency are two important elements of good governance. Accountability refers to the legal and reporting framework, organisational structure, strategy, procedures and actions to ensure that the SAI meets its legal obligations with regard to its audit mandate and reporting and that the SAI and its personnel can be held responsible for their actions. Transparency refers to the SAI's timely, reliable, clear and relevant public reporting on its status, mandate, strategy, activities and performance as also of the audit findings, conclusions and public access to information about the SAI.

Ethics

SAI India shall have a Code of Ethics that is aligned with the Code of Ethics (ISSAI 30) elaborated under the ISSAIs. The fundamental principles of ethics are integrity, independence, objectivity and impartiality, confidentiality and competence. SAI India shall ensure transparency and legality of its operations and actively promotes ethical behaviour throughout the organisation.

Quality Assurance and Quality Control

As an over-riding objective SAI India shall consider the risks to the quality of its work and establish a system of quality control that is designed to mitigate such identified risks. The risks to quality control depend upon the mandate and functions, conditions and environment under which it operates.

B. General Standards

Principles of Public Sector Auditing

The principles of public sector auditing constitute the general standards that apply to SAI India's personnel as auditors and are fundamental to the conduct of all types of public sector audits. The principles to be observed by all individual auditors are categorized into two distinct groups viz General principles, Principles related to the audit process

General Principal

General principles relate to the basic audit concepts, which shall be considered by auditors prior to commencement and at more than one point during the audit process and comprise the following:

- Auditors shall comply with the relevant ethical requirements and be independent.
- Auditors shall maintain appropriate professional behaviour by applying professional scepticism, professional judgement and due care throughout the audit.
- Auditors shall perform the audit in accordance with professional standards on quality control
- Auditors shall possess or have access to the necessary skill.
- Auditors shall manage the risks of providing a report that is inappropriate in the circumstances of the audit.
- Auditors shall consider materiality throughout the audit process.
- Auditors shall prepare audit documentation that is sufficiently detailed to provide a clear understanding of the work performed, evidence obtained and conclusions reached.
- Auditors shall establish effective communication throughout the audit process

Principles related to the audit process

Principles related to the audit process relate to the specific steps in the audit process and comprise the following:

a..Planning an audit

- Auditors shall obtain an understanding of the nature of the entity/programme to be audited
- Auditors shall conduct a risk assessment or problem analysis and revise this as necessary in response to the audit findings
- Auditors shall identify and assess the risks of fraud relevant to the audit objectives
- Auditors shall plan their work to ensure that the audit is conducted in an effective and efficient manner

Conducting an Audit

- Auditors shall perform audit procedures that provide sufficient and appropriate audit evidence to support the audit report.
- Auditors shall evaluate the audit evidence and draw conclusions

Reporting and Follow-up

- Auditors shall prepare a report based on the conclusions reached.
- An audit opinion or conclusion is used to convey the level of assurance, the opinion or conclusion shall be in a standardised format.
- Follow-up focuses on whether the audited entity has adequately addressed the matters raised in an Audit Report.

C. Specific Standards in Government Auditing

This section contains the specific considerations regarding their applicability to financial, compliance and performance audits, which the auditor shall, observed as specific standards during the conduct of these audits.

The purpose of an audit of financial statements is to enhance the degree of confidence of intended users in the financial statements. This is achieved through the expression of an opinion by the auditor as to whether the financial statements are prepared, in all material respects, in accordance within applicable financial reporting framework. In conducting performance audits, an assessment should be made of compliance with applicable laws and regulations when necessary to satisfy the audit objectives. The auditor should design the audit to provide reasonable assurance of detecting illegal acts that could significantly affect audit objectives. The auditor should also be alert to situations or transactions that could be indicative of illegal acts that may have an indirect effect on the audit results. Any indication that an irregularity, illegal act, fraud or error may have occurred which could have a material effect on the audit should cause the auditor to extend procedures to confirm or dispel such suspicious.

Financial reporting frameworks

Financial reporting frameworks are of three types.

- a) General purpose framework;
- b) Special purpose framework;
- c) Frameworks prescribed by law or regulations.

Competent, relevant and reasonable evidence should be obtained to support the auditor's judgement and conclusions regarding the organisation, program, activity or function under audit. In Financial audit and in other types of audit when applicable, auditors should analyse the financial statements to establish whether acceptable accounting standards for financial reporting and disclosure are complied with. Analysis of financial statements should be performed to such a degree that a rational basis is obtained to express an opinion on financial statements.

(Authority: Para no. 1.2, 1.4,2.5, 3.2 of CAG's Auditing Standards 2017)

(iv) In conducting the audit of accounts, the auditors should deal only with matters which have a financial bearing. Points which come under the principles of audit and cases of infringement of the standards of financial propriety should be investigated. But the auditors must be careful neither to interfere in executive matters nor to take up questions of administration, which have nothing to do with audit and accounts, or which are otherwise outside the province of legitimate enquiry of audit.

(v) When an auditor proposes to raise a question on higher audit on a subject which is predominantly administrative or technical in character, he should make sure that he has been able to ascertain and properly grasp the facts and the principles behind them and that the raising of the question or its pursuit is a legitimate duty of audit and likely also to serve some practical purpose. It is desirable to consult the Supervising Officer on the spot or the concerned Group Officer of AMG groups before taking up or pursuing questions which are likely to take an awkward turn.

(vi) The value of audit depends largely on the intelligence and thoroughness which is brought to bear upon it. Sometimes routine and formal objections, if pursued properly may lead to the detection of serious irregularities or a defect of system liable to lead to fraud. Auditors should always be alive to this and exercise the prescribed routine checks of initial records such as cash book, counterfoils of receipts, etc. with adequate attention. When an inspecting Asst. Audit Officer feels that he has touched on a matter which requires investigation, he should go into it with an exhaustiveness which will leave no details undiscovered, and he must take nothing for granted during such investigation.

(vii) It is undesirable to neglect the check of important initial records in local inspections in favour of materials which may provide cases for higher audit. In a case of embezzlement of money by a clerk of an office, it was found on investigation that a comparison of entries in the cash book with the counterfoils of receipt granted and the treasury remittance book would have enabled audit to detect the fraud. The audit inspection party, however, devoted most of their time to the examination of executive financial order, service books, etc. and the important initial record namely the cash book was not examined at all. In the zeal for finding material for higher audit by examining such cases, the examination of the initial accounts which is the primary object of local audit did not receive sufficient attention. The Auditor General has emphasised the fact that the primary duty of the Indian Audit Department is to secure the correctness of accounts and not criticism of the executive work of a department.

(Auditor General's Letter No. 31-Admn.I/205-36 dated 15-1-1937)

(viii) In auditing payment vouchers the auditors should not apply merely mechanical checks, e.g. seeing that there is proper acquaintance in support of payments that amounts charged are arithmetically correct and the rates are in accordance with the schedule of rates. In the interests of thorough audit, it is necessary to see that the charges in the bills are not extravagant and if doubt arises, the prevailing market rates may be ascertained through the District Officer. Cases of different rates paid for the same article observed in auditing the accounts of two or more offices in the same locality should be investigated and the auditors should find out carefully the causes of such differences.

NOTE:

1. The use of any form of questionnaire is prohibited.
2. The material for the inspection report should be gathered by the inspection staff themselves from the records they have inspected.

(ix) In auditing accounts, all entries checked should be ticked or cross-ticked by the auditors and all vouchers or challans examined should be initialled by them. When the document checked by the auditor is reviewed by the AAO, he should record against the auditor's entry the word 'Reviewed' under his dated initial.

NOTE :

In addition to the general review of the work done by the auditors during local audit, the AAO of the party (the senior-most among them in the case there are more than one AAO) should conduct a test check of 10 percent of the work done by the auditors including the check of totals expected to be done by the latter.

(x) Auditors should not make notes, corrections or remarks in any of the registers or any document of the office which they are auditing. They should not take any register or account book to their residence.

(xi) The auditors in the course of their audits should not express on their own authority opinions connected with the interpretation of any Act or Rule or give rulings on doubtful points of procedure, etc.

(xii) Investigation which is not strictly within the scope of the best audit should not be undertaken at the instance of administrative authorities even if no extra time is required for the purpose. The office inspected should readily make available to Audit all files/records required including "Secret" or "Top Secret" files. Audit party must call in writing for all registers and accounts of the office inspected required for audit purpose if the same are not readily put up on verbal requests. If an auditor states that he asked for papers but they could not be produced, he must be able to prove it from his requisition. Important documents, like service books, should invariably be formally requisitioned and acknowledgement obtained on returning the same.

(xiii) The audit party must examine all records pertaining to the months selected for audit and if any record cannot be produced, they must make sure of the reasons for its non-production and bring such failure to the notice of the head of the office.

(xiv) If the head of the office acts as the Drawing and Disbursing Officer for another subordinate units located elsewhere, decisions about the units whose records are to be subjected to test check and the period for which the test check is to be exercised should be taken and the relevant records requisitioned in writing on the first day of the local audit so that sufficient time may be available for having the records fetched from the subordinate units.

Particular attention should be paid to records if any, which were not produced on the occasions of previous audits.

(xv) If the test audit of the accounts of a department reveals short recovery of Government dues to a considerable extent the departmental authorities concerned should be instructed to arrange for a complete check of the account so as to ensure a complete and accurate assessment of the dues. The inspection report should in such cases, contain a para in the following forms.

"In view of what has been disclosed by audit as a result of a test check only, a thorough investigation with a cent per cent check of the transactions etc., in question is desirable and necessary. This may be arranged for and the results communicated to audit in due course."

(xvi) It should be specifically seen that no office maintains an unauthorised account in Private Bank, Post Office or a personal legal deposit account wherever the party comes across such accounts these may be intelligently scrutinised specially with reference to Bank Pass Books and Reconciliation Statements.

The Inspecting Officers are not required to verify by count, the cash balance of the office inspected. If however in any case, counting of cash balance is undertaken a simultaneous count of all cash balances (with relevant accounts) in charge of the disbursing officer or other custodian of the cash should be done. Result of verification indicating, both in figures and words, the actual physical cash counted should be recorded in the cash book.

(CAG's D.O. No. 70-Admn./I/54 of 26th July 1954 File No.7-N-1/54/55)

3.02 Power to make independent enquiries:

While auditing the accounts of Government institutions and offices, auditors should not make any enquiries from the tax payers or the general public, as such action amounts to an encroachment on the functions of the Administration. Audit should confine itself to calling upon the Executive to furnish necessary information and in case of difficulty, it should confer with the Executive as to the best means of obtaining the evidence which it requires [Para 2.1.10 of the MSO (Audit) Second Edition-2002]. Auditors should not also, while auditing the accounts of a public or quasi-public body, be permitted to make independent enquiries of tax payers or of the public at large unless such a procedure is expressly authorised by statutory regulations or executive orders.

If there are suspicious circumstances in the accounts, the Inspecting Officer should report the fact to the concerned Group Officers of AMG groups.

3.03 (i) Period of accounts to be audited:

The period of accounts to be audited by the Inspection Party should cover the transactions falling between the month upto the accounts were last audited and the month preceding the month in which the inspection takes place. In respect of first audit, the local audit party should conduct a general scrutiny of the accounts of the entire period from the inception of the office, supplemented by a detailed audit of two selected months.

The local audit and inspections should be complete and thorough in respect of transactions covered by them. Any failure to bring to light serious irregularities and even

defalcations which were later discovered by other agencies will bring the whole Audit Department into disrepute.

(CAG's Do letter Nil dated 6.6.1955 and office order no 1835 dated 04.07.1955)

In addition to the general scrutiny of the accounts and registers for the entire period, the transactions, related to selected months, are to be subjected to such checks as prescribed in CAG's D.O. Letter No. 770-TA1/117-74 dated 7-9-1974.

(CAG's Letter No. 126-TA/I-206-81 dated 28-1-1982).

(ii) Selection of month for test audit:

The selection of months for detailed check during local audit is as follows:

In respect of annual audits, one month, and for biennial, triennial, quadrennial and quinquennial audits and also for annual audits arranged after 1½ years, two months are selected for detailed check. The month(s) for detailed check selected by statistical sampling from VLC Database will be intimated to parties at the beginning of the quarter. For the check of Arithmetical Accuracy (AA Check), another one month in respect of annual audits and two months, in respect of biennial, triennial, quadrennial and quinquennial audits and also for audits arranged after 1½ years in respect of annual audits should be selected by the local audit party with the approval of the Supervising Sr. Audit Officer; where available.

Note: The cash book should also be checked on the lines indicated above.

(iii) Verification of remittances relating to selected months

The verifications of remittances during selected month have to be done irrespective of the fact whether the treasury is situated within 8 Kms. or outside 8 Kms. As per the Manual of Instructions for Restructuring of Cadres (Annexure 2.9.1) verification of drawls and deposits into treasury with reference to treasury records is to be done by the A.A.O. where there are two A.A.Os or by the A.A.O where there is only one A.A.O. This work may not be entrusted to the Auditors.

During local audit of the initial records such as Cash Book etc., the entries should be invariably checked with the counterfoils of receipts and the treasury challans. It had come to notice of the Comptroller and Auditor General of India that during a local audit, challans in respect of the credit of sale proceeds remitted into the Treasury could not be produced in several cases in support of the entry made in the cash book as remittances to Treasury. This aroused the suspicion of the local audit staff who thereupon made special arrangements to compare the credits directly with the credits brought to account in the books of the Treasury. This verification disclosed that the amount of several challans which had been accounted for in the Cash Book as having been remitted to Treasury was not actually so remitted but was embezzled by the Cashier by forging the signatures of Treasury Officer on the receipted challans.

With a view to facilitate early detection of the frauds of the nature referred to above it has been ordered by the Comptroller and Auditor General of India that during the local

audits, the verifications of (credited) receipts in the cash books in respect of the months selected for detailed audit should be made direct from the books of the Treasury. (CAG's letter No.1986-Admn-I/425-52 dated:23rd July, 1953).

The transactions of the months as may be selected should be audited completely and in every detail. In addition to this all accounts and registers should be generally examined to see whether they are on the whole properly maintained.

3.04 Papers to be sent for Audit:

For test audit of offices, the local audit party should be equipped with the following documents:

- i) The previous inspection reports;
- ii) The statement of points to be examined at local inspection furnished by the OAD(HQrs) Section;
- iii) The list of grants-in-aid and loans relating to the office under inspection furnished by audit section concerned
- iv) List of outstanding objections which has been forwarded to the head of the institution concerned direct from the audit section;
- v) Newspaper clippings for local verification as ordered by the PAG/AG (Audit-I);
- vi) Necessary reference books, Acts, Manuals, etc.
- vii) The audited vouchers of selected months from the FAA Sections concerned.
- viii) Audit Note Book
- ix) List of records to be checked in various offices/institutions as given in *Annexure-III* of Chapter 2.

3.05 Records to be maintained by Local Audit Parties:

It has been observed that there is no record with the parties to indicate the names of the various persons constituting the party from time to time and the member of the party responsible for maintenance and safe custody of the various documents, attendance register, service stamps etc., with the party. These issues have been considered in the OAD (HQrs) and the following instructions are issued for implementation by the field parties: -

(i) A register shall be maintained by each party, indicating in Part-I thereof the names, designation, period of incumbency etc., of each member of the party. The signatures and initials should also be appended against each name.

(ii) (a) The Assistant Audit Officer in charge of the party and the senior among them in the case of parties having more than one Assistant Audit Officer, the more senior of the two will function as the administrative and technical head of the party and be responsible for all the affairs, movements and activities of the party including the behaviour of all the members of the party. In particular, he will be responsible for planning the strategy of audit to be done as between the members of the party and generally directing the audit along with the lines planned by him. (In the case of audits which are fully supervised, these responsibilities will devolve on the inspecting officer, while in the case of those which are partially supervised, the decision taken by the Assistant Audit Officer will be subject to review by the Inspecting Officer as soon as he joins the party). In the case of

unsupervised audit, he will be responsible for drafting the local audit report and discussion of its contents with the head of office concerned.

(b) Before the commencement of audit the work should be distributed as per *Appendix-II* and an allocation list duly noted by all members be kept on record.

On completion of audit each member of the party should be required to certify on the statement that items of works allotted have been duly checked by him. The supervisory officer/Assistant Audit Officer in case of non-supervised audit) should ensure that all work has been duly completed. The statement of work done duly certified and countersigned by the Assistant Audit Officer/Inspecting Officer should be forwarded along with the inspection reports.

(c) Since the responsibility of the audit party is the greatest in respect of the detailed test audit of the transactions of selected months, this work should be done by the Assistant Audit Officer himself except in the exceptional cases where the work is so heavy that a part of it has to be assigned to auditor in order to finish the audit as scheduled. When this happens, the detailed justification for allotting a part of the work to a senior auditor should be recorded in the statement of allocation of work.

(d) The Assistant Audit Officer should take up personally more important item of work and all intelligent investigations to the extent the situation permits leaving the comparatively more routine and mechanical items of work to his auditors.

(iii) The Assistant Audit Officer mentioned at (ii) above shall entrust the custody of all the documents, including stamps to Sr. Auditor/Auditor of the party to be named by him. The seniority of the Sr. Auditor/Auditor should be the criteria wherever more than one Sr. Auditor is available. He should record these instructions in Part-II of the register mentioned at above. In case of parties without any Sr. Auditor/Auditor the Assistant Audit Officer mentioned at (ii) above will undertake this work.

(iv) When there is a change in the incumbency of the Assistant Audit Officer and in case of the Sr. Audit Officer where there is more than one, a handing over note should be recorded in Part-III of the register mentioned at (i) above indicating the records made over, the various categories of service postage stamps on hand, the stamp account duly closed etc. This note should be signed by the relieved and relieving Assistant Audit Officer.

(v) Each OAD party shall keep a file containing the circulars/ instructions, etc issued by Headquarters from time to time. The file should be maintained by the senior AAO of the party and transferred to the successor on his relief. In case the party is wound up, the file should be handed over to APM/OAD-III/AMG-III Section.

3.06. Audit Note book

An Audit Note book should be maintained for each office or institution audited. The programme book should consist of three parts:

(i) Part-I will record full reference, with brief narrations of all the standing orders of Government applicable to the concern, whether as regards its general set up or bearing

on day to day conduct of its administration prescribing the accounting procedure for the business handled by it. Any special orders received from the Central Office about any specific investigation to be conducted, or particular points to be borne in mind regarding the affairs of that undertaking should also be recorded on it.

(ii) Part-II will record, as precisely as possible the details of scrutiny to be conducted and investigation to be made, due cognisance being taken of the weakness in accounting system followed and the internal checks which may be in force. As audit progresses from day to day, the auditor will put his dated initials against each items checked by him.

(iii) In part-III notes taken during the course of audit regarding irregularities to be included in the inspection report, wanting vouchers, points to be verified during the next audit, etc., should be noted. If in the course of audit, it is felt that on account of changes in the structure of the organisation or increase in expenditure, etc., any new check is necessary to be exercised, the same should be included in the Programme Book. It should be sent by the Assistant Audit Officer to the Central Office along with the draft inspection report.

(O.O. No. OAD/Audit Programme Book dated:19th August, 1960).

3.07. Title Sheet

Title Sheet, as mentioned in *Annexure-II* of chapter-12, to this manual should be prepared for every audit. Any changes or additions made in the title sheet by the OAD (HQrs) Section should be promptly incorporated in the form. All items in the title sheet should be carefully filled in.

(O.O. No. OAD-II/Civil/Control/3 dated: Nov. 1964).

3.08. (a) Register of documents sent to Local Audit Parties:

A register in *Form VIII* of this Manual should be maintained by OAD (HQ) Section for watching the prompt despatch of the previous inspection reports, statement of points to be verified in Local audit, the list of contracts and agreements entered into by the office inspected etc. The feeder units/ sections should ensure that the previous inspection reports and other documents are handed over to the field parties at least one week before the commencement of audit. In cases where the previous inspection reports could not be sent, the reasons whether it was due to absence of outstanding inspection reports, sudden deviation in programme, etc. should be noted before the close of each month to facilitate closing of the Register by the 1st of next month. The registering clerk of OAD (HQ) section should note the date of receipt and the details of documents received back, in a separate register and obtain the acknowledgement of the respective field party while handing over the documents.

While closing the Register (*Form VIII*) the following details may be brought out:

1. Number of institutions audited in previous month.
 2. Number of institutions to which previous inspection reports were sent.
 3. Number of institutions to which previous inspection reports could not be sent.
- (a) Number in which no previous inspection reports were to be sent or no previous inspection reports were outstanding.

- (b) Number of cases for which previous inspection reports could not be sent on account of sudden deviations etc.
- (c) Number of cases in which Inspection Reports were omitted to be sent
- 4. Number of paras communicated.
- 5. Number of paras settled.
- 6. Number of paras pending clearance.

(b) Obtaining the details of payments made during selected month from treasuries.

In respect of the programmes drafted by APM Section, it was decided that the field parties would collect the details of payments made by the treasuries for the selected months from the list of payments maintained in the treasury in respect of the auditee institutions and check the details with the initial records maintained in the auditee Organisation / Office. The collection of details of payments would be made during the visit of A.A.O. of the party to the treasury for check of remittances.

There should be only one visit to the Treasury for verifying remittances and collecting the details of payments. A statement of the details of payments collected from the Treasury and verified with the initial records, duly authenticated by the A.A.O. may be attached to the draft Inspection Report.

3.09. Consulting Government Orders and Dictionary of References:

Inspecting AAOs should get from the local offices inspected all important rules and orders issued by the Government in respect of these offices and they should also pursue and take notes from the Dictionary of References maintained at Headquarters whenever they get an opportunity of doing this.

3.10. Supervising Officer's duties:

(i). The Supervising Officer should make it a point to call on the Head of the office and ascertain from him if he has any suggestion for investigation either of any portion of the initial accounts under him about which he entertains any doubt of irregularity or of the processes of these accounts for reducing clerical or accounts work. The Officer will examine such suggestions and also any other matters which come to his notice. Before the conclusion of the inspection he will personally discuss with the head of office concerned the result of his examination and then embody them in a note which will be submitted to the concerned Group Officers of AMG groups for suitable further action.

(ii) The Supervising Officer is expected to guide his staff, to do a certain amount of original work and to examine personally with reference to the initial documents all important points raised by the staff. He should make an intelligent probe into the initial records to see whether the defective maintenance or non-maintenance of the records is a camouflage to hide fraud or misappropriation.

It is essential that in the case of supervised audits the inspection reports should be drafted by the Supervising Officer himself. The items of work attended to by the supervising officer should be stated in the Title Sheet. The report should be drafted by the Supervising Officer in such a manner that it can be issued without further editing.

(iii). The officer must acquaint himself with the system of finance of any institution the account of which he is inspecting what make up its receipts and how its money is expended.

(iv). The inspecting officer are required to perform the following duties: -

- (a) To review and scrutinise comparative statements tenders etc.,
- (b) Review of scheme items on which an expenditure of ₹ 5 lakh or above has been incurred.
- (c) General scrutiny of the Cash Book and transactions during the period covered by audit
- (d) To examine all important points raised by their staff and they should take particular care to see that the reports are drawn up so as to afford no grounds for complaint from the local authorities in regard to their tone of substance. Inspection should be conducted with fact and discretion so as to avoid all possible irritation to local officers.

No statement which might be treated as injurious to the character of any person should be made without the utmost care and attention to facts, as otherwise, it may not be regarded by a court as bonafide and make the reporter liable for civil or criminal liability.

"In cases where the inspections are conducted under the supervision of an officer throughout or where the concluding stage of the audit is supervised by him, the inspecting officer shall write out the report himself and not leave it to his subordinate to do the drafting. The report thus drafted shall be forwarded to the Central office in hard copy as well as soft copies".

(CAG's confidential D.O. No. 1307/Admn. /I/388-55, dated: 24.6.1955 and A.G.'s orders dated: 3.12.1955).

The inspecting officer should try to get all the facts and explanation on the spot. Wherever satisfactory explanation is not forthcoming and inspecting officer feels that the points raised by him are so important that they may ultimately find a place in the audit report to be submitted to the Legislature, he should take care to clinch all issues involved, to collect all relevant information and also to take attested copies of those documents which are likely to be useful in pursuing the matter with higher authorities.

(CAG's No.971/Tech. Admn.II/131-68 dated: 2.5.1968).

(v) (a) Whenever the Inspecting Officer /Assistant Audit Officer comes across a case of defalcation, fraud, embezzlement or serious financial irregularity; he should at once try to analyse and understand the modus operandi thereof and also make himself sure by extending his probe to some other months at random that the case which has come to his notice is not part of a regular pattern. When the officer has made these preliminary investigations he may report the matter to the headquarters and seek further instructions. In all such cases a covering letter to the Inspection Report should be sent in advance detailing the result of his investigations.

(b) In the cases of frauds which come to notice in the course of local audit of the accounts, the local audit party should bear in mind following instructions enjoined in D.O. letter No. C/9-321/Admn/I53-Part III dated: 23.11.1954 from the office of the Comptroller and Auditor General of India.

"Though we have no direct powers of impounding documents which are in the custody of departmental offices, those offices are bound under para 18 of Audit and Accounts orders, 1963 to comply with any requisition from the Audit Department to produce any books and other documents relating to transactions to which our duties in respect of audit extend and to make these documents available at such places as we may appoint for inspection by us. The statutory position being so, there is nothing to preclude us from keeping with us documents produced in local audit on the ground that certain audit processes are still incomplete. When the audit party moves away from the office inspected, it will then only be necessary for them to furnish to the Head of the Office inspected an acknowledged list of documents that they are taking away with them for completing the processes of audit. There is no restriction that documents that are ordinarily audited locally should be audited only with the premises of the departmental office. In fact, there may be cases where it may be necessary to submit the documents in original to superior authorities at Headquarters and to take their orders or directions.

In such cases where the documents are likely to form valuable evidence to prove a fraud, a photostat copy may be taken in the usual manner by the Audit Office. When the audit note containing the objection relating to the fraud is sent to the departmental officers, the original documents could be sent either to the Head of the Office in case it is clear that personally he is not involved in the fraud and in other cases the documents could be sent to his superior authority, audit relating for its further purposes photostat copies. Thereafter, it would be the responsibility of the head of the office or his superior authority to make arrangements for the proper custody of these records and to produce them to the police when required. As these are really departmental records, it is considered that it should suffice in such cases if the photostat copies are held in safe custody by the Sr. Audit Office, though in respect of documents ordinarily in the custody of the audit office the instructions are that the original should not be parted with except under the orders of the Government of India, Ministry of Home Affairs in consultation with the Comptroller and Auditor General.

In this respect, the CAG would not like to make any distinction between prescribed audits and consent audits.

(v) (a) Procedure for simplification of initial accounts: -

In this matter it is primarily for District Officers or the Heads of offices to bring to notice any processes of initial accounts which in the opinion, have become unnecessary or obsolete by changed conditions. At the same time the officers of the Accounts Department should always be ready to take up the question of simplification of initial accounts and point out to Government the scope for simplification in particular cases. This question can best be handled by introducing as an experimental measures in selected districts, particular measure of reform which have been suggested and which are

prima facie admissible. On the result of the experiment, the Government will be in better position to issue general orders on the subject.

(b) The instructions contained in para 769 of M.S.O. (Tech.) Vol.I should also be borne in mind. As a normal procedure the inspecting officer and Assistant Audit Officer should before the commencement of an audit inspection, make it a point to call on the District Officer or the Head of the office at a station and ascertain from him whether he has any suggestions for investigations of the processes of initial accounts under his control. The Inspecting Officer and Assistant Audit Officer will then examine the suggestions and also any other matter which comes to their notice. The Inspecting Officer should invariably discuss important points raised in the course of inspection with the Executive Officer concerned with a view to their elucidation and settlement on the spot, if possible consistent with sound financial and audit principles. Where in any case, this discussion has not taken place, the Inspecting Officer should briefly record the reasons when submitting the report. Before the conclusion of the Inspection they will personally discuss with the officer concerned the results of examination and then embody them in a note, two copies of which will be submitted to the PAG/AG. One copy of this note will, after it is edited in the Central office by the Sr. Dy. Accountant General with a draft of forwarding note to the District Officer or the Head of the Department as the case may require for necessary action and the other copy retained in a file for watch over disposal.

3.11. Distribution of work among the members of the party

(i) The Supervising Officer should distribute the work between the Asst. Audit Officer and the Auditors and also indicate the item of work that he has done personally. The distribution of work should be recorded in the inspection file. An additional sheet in the title sheet viz. Individual Work Profile (copy given as *Annexure-III* to this chapter) should be filled up by all and countersigned by the supervising officer in the case of party members.

(CAG's Letter No. 3010/Admn.I/463-60 dated 2-11-1962)

(ii) The broad outline of duties and responsibilities allocated to various categories of personnel in inspection parties is given in Annexure 2.9.1 of the Manual of Instructions for Restructuring of cadres in IA & AD.(App.VIII). However, when on practical consideration arising from the relevant factors, some changes in the distribution of duties and responsibilities among the members of the party are considered necessary, the Sr. Audit Officer or in his absence, the AAO in charge of the Inspection party may make such changes in writing. The revised distribution along with brief reasons therefore should be clearly indicated in a separate sheet attached to the Title Sheet.

According to para 2.9 of the Manual of Instructions for Restructuring of cadres in IA&AD, normally auditors should be able to issue inspection memos and put up notes and separate reports have to be submitted by each auditor, Assistant Audit Officer in an inspection party in the form of material for inclusion in the inspection report based on the actual work done and inspection memos issued by them, taking into account the replies thereto from the departments. These instructions should be scrupulously followed

and the separate reports should be handed over in time to the Sr. Audit Officer /AAO in charge of the party for writing the inspection report. If there is no material for inclusion in the inspection report, a 'Nil' report indicating the special reasons if any for not giving any material for inclusion in the inspection report should be handed over to the Sr. Audit Officer/ AAO in charge of the party.

(iii) To ensure the factual correctness of the points raised in the Inspection memos and also the inclusion of observations in the memos without omissions, the auditor should submit the inspection memos with all files/documents to the Assistant Audit Officer for verification before their issue to the departmental offices. The Auditors and Asst. Audit Officer should ensure that this is done in all cases without fail. Where the Sr. Audit Officer supervising the party is available the AAO/ Auditor should get the inspection memos prepared by them, approved by the Sr. Audit Officer before issue in important cases.

In cases where the inspection memos have been issued without approval by the Sr. Audit Officer (i.e. before commencement of supervision by Sr. Audit Officer) the Sr. Audit Officer should call for the office copies of such memos and issue further remarks where he considers it necessary to modify the audit enquiry already issued or to obtain supplementary or other information, clarification etc.

(iv) According to Annexure to 2.9.1 of Manual of Instructions for restructuring of cadres in IA & AD (App.VII) the work of verification and disposal of previous inspection reports is assigned to the senior of the two auditors in the case of civil inspection. This does not however relieve the head of the party of his overall responsibility and the extent to which the auditor may be allowed to act on his own has to be decided in each case by the head of the party.

(v) Where close supervision of the items mentioned in (iii) and (iv) above are needed, in the case of work relating to routine checking of receipts and payments, the assistance of the auditors may be availed of subject to the overall responsibility and supervision resting with the AAO.

(vi) The Inspecting Officer should personally review all tenders and agreements to see whether the contracts entered into were in accordance with the general principles and whether the contracts have been executed faithfully. He should also see personally the state of accounts in the office inspected especially the Cash Account.

(vii) The Inspecting Officer's work of supervision consists of seeing that all the Accounts Registers, etc. have been audited by the Inspecting staff and that the necessary process of audit has been carried out by them. He should bear in mind the general instructions laid down in para 6.1.2 to 6.1.5 of MSO(Audit) Second Edition-2002 and see that no point of importance has escaped attention during the audit. He will also discuss the important points noticed during audit with the head of the office and endeavour to settle on the spot as many objections raised during audit as possible as well as the outstanding points from the previous inspection reports.

Where it becomes necessary to discuss with the Head of the Office inspected, any matter arising from audit scrutiny or any difficulty in getting the records, replies and facilities for conducting audit, such discussion may be held by the supervising Sr. Audit Officer if he is available or in his absence, by the senior Asst. Audit Officer of the party.

(viii) It should be recognised as one of the primary duties of the inspecting officer to report to the PAG/AG separately and immediately anything really serious or important which comes to light in the course of his inspection without waiting to include them in the inspection report. Such interim reports may be shown in the first instance to the head of the office inspected for his comments.

As soon as the audit of each institution is over, the Sr. Audit Officer (if he is present on the last day of audit of the institutions or else the senior Asst. Audit Officer) should send a special report to the PAG/AG by name, in case any important points have been noticed in audit which can be developed into draft paragraphs. The receipt of the report will be watched by Secretary to the PAG/AG. A copy of the report should also be simultaneously sent to the concerned Group Officer.

By the 10th of each month, every Sr. Audit Officer who has been on field duty for any part of the previous month should send a brief report to the PAG/AG by name mentioning the audits supervised by him during the previous month, the important points noticed in audit, the members of the party who have contributed them, the problems faced by him in field duty and the steps he considers necessary for dealing with such problems and improving the quality of local audit/ inspection work, etc. The reports will be kept in the Accountant General's Secretariat and will inter-alia be utilised for making assessment of the quality of the local audit/ inspection work done.

Subject to the exigencies of local audit/inspection programme each Sr. Audit Officer should, as far as possible, meet the PAG/AG once in a quarter and give him a personal appraisal of the local audit/ inspecting work supervised by him (Sr. Audit Officer).

(ix) Certain instances of defalcation of money in the accounts of an institution relating to collection of fines and licence were brought to light. On investigation of the matter it was noticed that the defalcations were rendered possible not due to any defect in the rules but for want of supervision and check of the accounts. The amounts realised should have found a place in the connected registers, but it was noticed that the registers were not page numbered and certified to that effect as required by rules and the sheets were torn. Had the register been page numbered and certified it would not have rendered the defalcation possible. The inspecting officer should therefore, see that the rules regarding maintenance of registers etc. are strictly observed by the institutions which they inspect.

(x) It is essential for audit to comment on the state of records maintained in the office inspected. Defective records may conceal embezzlement, serious misappropriation of funds and prevent the department from taking timely action to recover the amounts due to Government.

3.12 FRAUD

Introduction

Examination of system for detection and prevention of fraud and corruption will henceforth be an integral part of all regularity audits and also of performance audits, whenever it forms one of the audit (sub) objectives. The standing order in the Appendix to this communication is issued in supersession of the existing instructions on the subject. As and when the need arises detailed guidelines will be issued. Some of the important points to be kept in view are as under:

(1) Corruption and fraud are generally interlinked. In fact corruption is a special type of fraud and treated as such in many jurisdictions. In any case audit teams / officers should be well aware of the complex distinction as well as correlation between the two. *Appendix-A* to the Annexure contains some illustrative (not exhaustive) types of fraud and corruption that the audit teams may come across.

Fraud examination

(2) Fraud examination is a part of the normal auditing procedures. Fraud has a legal (criminal) connotation. Audit teams/officers do not make legal determinations of whether fraud has actually occurred. Hence, audit teams/officers can put red flags (an indication that further scrutiny of the items would be required) which need further investigation by appropriate agencies. When the evidence is clear, audit teams/officers can come to a conclusion about a suspected fraud and include it in their findings.

Respective responsibilities of management and audit

(3) The responsibility for the prevention and detection of fraud and error rests primarily with the management of the audited entity through the implementation and continued operation of accounting and control System designed to check fraud. Audit must, however, evaluate and report on the adequacy of the systems in place and competence with which the management has discharged its responsibility in relation to prevention detection, response and follow-up/ remedial measures in relation to fraud and corruption.

(4) During audit of financial statements, two types of intentional misstatements are relevant to the audit teams/officers, viz., misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets. Similar considerations apply in case of performance audits. In performance audit, while selecting themes and issues/sub-issues, the vulnerability to fraud and corruption should be given due consideration.

Professional skepticism

(5) Audit teams/officers should maintain an attitude of professional skepticism (an attitude that includes a questioning mind and a critical assessment of audit evidence) throughout the audit.

Fraud awareness at the audit planning stage

(6) The field offices should carry out independent risk assessment and prioritize their audit planning accordingly. The audit plans in relation to fraud and corruption

should focus on high risk areas. Some of the common high risk areas (illustrative) are contracts of service/procurement, inventory and asset management, sanctions/clearances, performance information, revenue receipts, cash management, general expenditure, grants, financial statements, operating information, computerized environment, privatization of government entities and any other areas involving public interface.

(7) While planning audit, the field PAG/AG etc. should assess the risk that fraud may cause to the financial statements to contain material misstatement or record material irregular transactions. Based on the risk assessment, the PAG/AG should develop the audit objectives and design audit procedures so as to secure reasonable expectation of detecting and evaluating material misstatement and irregularities arising from fraud and corruption.

Vigilance about fraud at audit execution stage

(8) At the commencement of each audit, information about the fraud and corruption awareness, detection and prevention policy and related environment (including any instances of fraud and corruption noticed since last audit and action taken on such instances including strengthening of internal control systems) should be collected from the audited entity management.

(9) During the course of audit work, the audit teams/officers should be vigilant seek explanations, if they come across possible fraud Indicators. Some illustrative Lid indicators (red flag areas) are given in *Appendix-B* to the Annexure.

Audit evidence and documentation

(10) Any indication that an irregularity, illegal act, fraud or error may have occurred which could have a material effect on the audit finding/opinion should cause the audit teams/officers to extend procedures to confirm or dispel such suspicions. Instructions regarding the illustrative procedures to be adopted are given in the Appendix. If the irregularities had a material effect on the accounts, suitable reporting and qualification in the audit opinion may be warranted. Audit should also recommend improvement in the control procedures to management.

(11) IT fraud is an area of concern for Audit. Collecting computer evidence requires careful planning and execution. Audit teams/officers should examine whether appropriate controls are in place in order to ensure the authenticity of computer evidence.

(12) The audit teams/officers should check compliance with the provisions of Rules 33, 34, 37 and 38 of the General Financial Rules (GFRs) 2017 (*Appendix-C to the Annexure*).

(13) The audit teams/officers should clearly understand that the audit evidence obtained can be only persuasive and not conclusive. While reporting all cases of suspected or presumptive fraud or corruption, they should refrain from making any judgment regarding the existence of fraud or corruption. The evidence should also be

capable of proving that the audit teams/officers have discharged their functions with reasonable care and due diligence.

Reporting and follow-up

(14) Reports of individual cases of suspected fraud/corruption should be confidentially addressed, in the first instance, to the controlling authority concerned, with the approval of Group Officers. More serious cases should also be confidentially reported to the Secretary of the Administrative Departments (where they are not the controlling officers) concerned and the investigative authorities like Central/State Vigilance Commission, Lok Ayukta, etc. as applicable in the manner either over the signature of the PAG/AG or with his/her approval.

(15) Cases relating to suspected/presumptive fraud and corruption should be specially highlighted in the concerned Inspection Reports, Audit Notes, etc. and also in the Audit Reports. All such cases should be printed in bold type.

(16) While forwarding the Bond Copy of the Audit Reports to Headquarters, the PAG/AG should indicate in the forwarding letter the number of cases of fraud and corruption included in the Report together with the money value of the concerned paras. In the submission note of the file relating to the bond copy, the number of cases of suspected/presumptive fraud and corruption in the Report should be highlighted together with the money value of concerned paras.

(17) The draft of the annual post-audit report letter to the Chief Ministers should have a brief mention of issues relating to suspected fraud and corruption where such leases appear in the Audit Reports and the system put in place by the field AGs, etc. to monitor paras relating to fraud/corruption. In addition, all such cases should be taken up immediately after approval of the bond copy with appropriate authorities in the Union and State Governments, viz., Central/State Vigilance Commission, etc. as a follow-up. If such cases have been reported earlier by the PAG/AG, reference may be drawn to them with the additional information that these cases have been included in CAG's Audit Report to the Parliament/Legislature.

Miscellaneous

(18) The PAG/AG may require the Audit teams / officers to provide a Memorandum / Certificate of Assurance which will include, *inter alia*, examination of issues relating to fraud and corruption

(19) The PAG/AG should develop sector specific guidelines/checklists for audit of fraud and corruption in the audit of entities belonging to specific sectors (viz., health, education, works, etc.), for the guidance of the field staff deployed in such audits and furnishes a copy of such guidelines/ checklists to DG (Audit).

(20) The field offices should submit half-yearly reports on cases of material fraud and corruption noticed by them to the Headquarters Office or through the rationalized management information system, when introduced.

(CAG's Letter No. 126/Audit (AP)/1-2004 dated 06.09.2006)

Appendix-A

Illustrative fraud and corruption in contracting for goods and services:

Bribery and Kickbacks - Money or any other form of reward or favour is exchanged between a public functionary and a provider of goods and services in order to obtain some benefit e.g. acceptance of substandard goods or obtaining unauthorized information.

Changes in Original Contracts - Changes are made in the original contract requiring flow of additional funds from the government to the contractor or supplier, which may affect the basis on which the contract was awarded to the contractor or supplier in the first instance. This may also involve front-loading of contract in the hope of increasing the price of the original contract through change orders or subsequent modifications to the contract.

Duplicate Payments - The contractor or supplier claims and receives payment for the same service or work done or goods supplied under the same or different contracts.

Collusive or Cartel Bidding — Contractors or suppliers form cartels to fix artificially high prices for goods and services supplied by them.

Conflict of Interest - Contracts are awarded on the basis of vested interests of the decision makers.

Defective Pricing - The contractor or supplier submits inflated invoices.

False Invoices - The contractor or supplier submits invoices for goods that have not been delivered or do not properly represent the quantity or quality of goods and services supplied or work done as per contracted specifications.

False Representations - The contractor falsifies the goods specifications or his ability to provide certain services.

Splitting of Purchases - The purchases of goods and services are split either to avoid open competition or having to seek the approval of higher authority.

Phantom Contractor - Purchases are made from a fake supplier or contractor.

Pilferage of Public Assets - Public funds are used to acquire goods for personal use or public assets pilfered by officials.

Tailored Specifications - Specifications and time limits are manipulated to favor a certain contractor or supplier.

Supply Orders — in excess of, or without establishment the requirement/ need and much ahead of the actual requirement.

Appendix B

Some indicators (red flags) for possible fraud and corruption (illustrative) Procurement and contracting of goods and services Requirements defining stage:

Inadequate needs analysis, inadequate information about potential suppliers and inadequate review of existing and required inventory.

Unduly short supply period: Needs analysis is product rather than needs oriented, someone other than the user defines the user requirements and unwarranted involvement of senior officials.

Bidding and selection stage:

The specifications are not clearly defined, A very limited number of offers is received, Documentation indicates unusual involvement of an official; Suspicion about conflict of interest, Evidence of early- receipt of information by some contractors or suppliers: Request for proposal is not properly advertised Unusual handling of the bidding process Evaluation criteria is not consistent for different offers, Exceptions to the tender deadlines, Changes in the bids made after their formal receipt, Lowest responsive bidder is not selected, Contractor or supplier submits unrealistic bid indicating collusion or bid rotation, Unusual withdrawal of bids; Re-bid results identical to original bids: Successful contractors or suppliers use competitors as sub-contractors or sub-suppliers; and Justification for single source procurement is inadequate, etc.

Contract performance and evaluation stage:

Changes in a contract result in the large increase in the cost of goods and services, Changes made without adequate explanations; Unwarranted contract extension, Complaints about the quality of goods and services received, Inadequate inspections and quality assurance of goods and services received, Evidence of overcharging and duplicate billings, Dubious invoices;

Insufficient pre-audit of contractor payments; Contracts repeatedly awarded to one contractor; and unduly high labour payments; etc.

Accounting records:

Missing vouchers:

Production of photocopies of documents instead of originals; Alterations and erasures in accounting records; Any unusual accounting entries; Discrepancies between control accounts and subsidiary records; Discrepancies between predicted figures and actual figures during analytical review procedures; and Employees in sensitive posts not taking leave; etc.

Performance Information

Performance information about delivery of goods / services, assets creation, etc. not supported by original documents and downstream data

Theoretical calculations not supported by actual measurements, muster rolls, inspection notes, quality reports, etc; Non-production of basic records, viz., asset register, muster roll, measurement books, etc. Non-availability of transparent evidence of expenditure and receipts into Government Account; and Inconsistency between financial and physical information about progress of scheme / work.

Note: These are only illustrative examples. Accountants General may please prepare a comprehensive list of 'red flag' items in audit of various Departments/sectors and establish procedures to ensure that such items are reckoned while planning the audits, transparently documented and evidence of addressing all such items and their treatment are recorded and retained.

Appendix-C

Extracts from the provision of General Financial Rules, 2017.

Rule 33 (1). Report of Losses:

Any loss or shortage of public moneys, departmental revenue or receipts, stamps, opium, stores or other property held by, or on behalf of, Government irrespective of the cause of loss and manner of detection, shall be immediately reported by the subordinate authority concerned to the next higher authority as well as to the Statutory Audit Officer and to the concerned Principal Accounts Officer, even when such loss has been made good by the party responsible for it. However the following losses need not be reported:

- (i) Cases involving losses of revenue due to;
 - (a) mistakes in assessments which are discovered too late to permit a supplementary claim being made, (b) under assessments which are due to interpretation of the law by the local authority being overruled by higher authority after the expiry of the time-limit prescribed under the law, and (c) refunds allowed on the ground that the claims were time-barred:
- (ii) Petty losses of value not exceeding Rupees ten thousand.

Rule 34: Loss of Government Property due to fire, theft, fraud. Departmental Officers shall, in addition to taking action as prescribed in Rule 33, follow the provisions indicated below in cases involving material loss or destruction of Government property as a result of fire, theft, fraud, etc. All losses above the value of Rupees Fifty thousand due to suspected fire, theft, fraud, etc., shall be invariably reported to the Police for investigation as early as possible. Once the matter is reported to the Police Authorities, all concerned should assist the Police in their investigation. A formal investigation report should be obtained from the Police Authorities in all cases, which are referred to them.

Rule 37. Responsibility of losses. An officer shall be held personally responsible for any loss sustained by the Government through fraud or negligence on his part. He will also be held personally responsible for any loss arising from fraud or negligence of any other officer to the extent to which it may be shown that he contributed to the loss by his own action or negligence. The departmental proceedings for assessment of responsibility for the loss shall be conducted according to the instructions contained in Standing Order on role of audit in relation to Fraud and Corruption, 2010 and those issued by the Ministry of Personnel from time to time.

Rule 38 Prompt disposals of cases of loss. Action at each stage of detection, reporting, write off, final disposal, in cases of losses including action against delinquents and remedial measures should be completed promptly with special attention to action against delinquents and remedial measures, taken to strengthen the control system

3.13. Interrogation of staff of the office of the PAG/AG (Audit-I) by police in connection with cases of defalcation / embezzlement.

Members of OAD Parties and Sr. Audit Officers, in case they receive any communication from police officials in respect of any official matter, should request them to refer the matter to the Pr. Accountant General (Audit-I), Rajkot by name when the defalcation relates to Treasuries and Commercial institutions, to the concerned Group Officer of AMG groups when the defalcations relate to civil offices (State and Central) & Forest, to the Group Officer (Works), Ahmedabad; when the defalcation relates to PWD offices, and simultaneously seek instruction from the main office regarding action to be taken. They are advised not to give statements/ evidence before the police officer without proper instructions from Main Office.

For further details, para 6.16 of Manual of General Procedures may be referred to.

3.14. (a) Entry Meeting.

On the first day of audit itself the Audit Party members should have an 'entry meeting' with the Head of Office to inform of the audit plan and also of the records and documents required and to request the head of office and other officers and staff to be available in the office throughout the period of audit. Minutes of the 'entry meeting' should be documented and should form part of the inspection report papers.

(b) Report of commencement of Audit.

An intimation to the headquarters controlling section should be made on the first day of audit, that the audit of the unit had been taken up as per approved programme, inter-alia intimating the name of the Head of the auditee unit, their telephone number, telephone number at which the audit party can be contacted in case of urgency for any official or domestic need and that all the members of the party had reported. All inspecting officer/field parties are therefore directed to fax/E-mail a report regarding commencement of audit indicating the above details to the concerned section in Headquarters on the first day of audit. The Headquarter Section should also strictly watch the receipt of the report through Performance Register of field parties.

The report of commencement of audit may be sent to headquarters section by post if no fax/E-mail facility is available at the office of duty.

3.15 Attitude of inspecting staff:

Auditors while not deviating in any manner from their duty, should be careful to avoid any misunderstanding or friction with the local officers with whom they come into contact. Their attitude should be that of one who has come to assist and not merely to criticise. They will invariably receive full co-operation from local officers if they avoid frivolous objections and convince the officers by the manner in which they go about their work that they are not there to complicate the procedure but to simplify it. They should bear in mind that unnecessarily meticulous and badly expressed objections not only bring discredit to Audit and cause annoyance to the local officials but also increase the work at both ends. The inspecting staff should therefore, maintain a strictly detached,

dispassionate and technical attitude in the day to day conduct of their work. Nothing should be done to hamper the evolution of the complimentary roles of Audit and administration, either by the use of extravagant language or by the attitude that Audit alone is the keeper of nation's financial conscience.

(CAG's D.O. Letter No. P.5-588/56 dated 23/10/1956.)

Papers and files of the offices inspected by the party should be returned in the same condition in which they are received. On no account should these be rearranged, combined or broken by them with smaller files in any case. If such a rearrangement is absolutely necessary, it should be carried out only by the office which is being inspected.

Members of the inspection parties should scrupulously avoid accepting hospitality of officials of the departments they are inspecting as, such acceptance is against official decorum and brings discredit to the audit department as a whole.

Inspecting Officers should not, however, make suggestions asking the officers to maintain registers and records other than those prescribed or to dispense with any prescribed registers. They should not also hold out any assurance of their own to the offices inspected. They should be more circumspect when discussing with departmental officers and should advise only in minor cases where no detailed examination of the issues is necessary. Substance of the advice so tendered should be included as a brief note in the inspection report for the information of the headquarters office.

3.16. Attendance Register:

The Asst. Audit Officer of each inspection party is supplied with an attendance register wherein he and members of the party should mark their daily attendance. This register should be submitted to the Supervising Officer when he visits the party.

The attendance register of each field party should be duly closed and submit to their respective controlling Sections in HQR's i.e. APM, OAD-III, ECPA Section (For PA/TA/FCA) AMG-III. Branch Officer of the controlling section shall ensure receipt of attendance register of preceding year in respect of all field parties by 10th of January of the following year for review/checking the Weekly Diaries/Leave account and for checking by ITA Section.

3.17. Availing of holidays

The inspecting staff must attend the office which they inspect during its regular office hours. They may observe while inspecting the State Government offices, the holidays specified in their tour programme, provided the state of their work permits them to do so.

In the event of declaration of holiday by the State/Central Government all the audit parties and supervising officers should adjust the day lost due to the declaration of a holiday at the institution where the party is stationed or at the next institution positively. If the holiday declared falls during the audit of an institution for which only one day is allowed, the audit of that institution may be cancelled and if it falls on a transit day the holiday declared may be availed as transit. The mode of adjustment should

simultaneously be intimated to OAD (HQ) Sections concerned on the day succeeding the holiday.

No member of the inspection staff should leave the place of halt without the prior permission of the concerned Group Officer of AMG groups. If they do so they will be treated as absent from duty without leave. When, however, a member of the inspecting staff is forced to leave his place of halt for very strong and urgent reasons, he should report the fact immediately to the concerned Group Officer of AMG groups explaining the circumstances which required his absence from the place of his inspection or halt in anticipation of formal orders.

The officers and staff on field duty should make it a point to carry out the work allotted to them to the best of their abilities, observing punctuality and regularity in attendance.

3.18 Extension of period of local audit.

(i) If extension of time was found necessary for any reason by the local audit party a report to this effect should be sent by the party to OAD (HQrs) on the first or second day for such extension. No extension should be availed without prior permission. If adequate time was not available for getting prior permission, OAD (HQrs) should be contacted over phone and approval obtained. Further, if extension of time was taken for completion of audit of any institution, the period extended should be adjusted in the audit of subsequent institutions.

(ii) Approved tour programme should not be deviated without prior approval of HQrs Section

(iii) After arriving at a particular office, in some instances, Inspecting Officers are forced to wait for the arrival of the party for some days, may be due to extension taken by the party at previous institutions without intimating OAD (HQrs). In order to avoid such a situation, all the Inspecting Officers are directed to report to OAD (HQrs) the absence of any audit party, on the first day of supervision itself so that alternate arrangements can be made by OAD (HQrs)

3.19. Grant of casual leave and restricted holidays.

(1) Casual leave or restricted holidays should normally be availed of by members of inspection parties only after obtaining sanction. The casual leave/restricted holiday to members of Civil Audit parties will be sanctioned by the Branch Officer APM/OAD-III/AMG-III/ECPA Section on the basis of recommendation of the supervising officer. If any change of programme or alternative arrangement is necessary by granting such leave to inspecting AAOs, the orders of Group Officer of AMG groups should be obtained. The casual leave register is to be maintained in APM/OAD-III/AMG-III/ECPA Section. The parties should also maintain a casual leave register for their reference. Casual leave/restricted holiday to Sr .Audit Officers supervising the parties will be sanctioned by the Group Officer.

The following instructions should also be noted for strict compliance: -

i) Members who desire to proceed on earned leave, casual leave or restricted holiday should send their application to the sanctioning authority sufficiently in advance, duly recommended by the appropriate authority. Under no circumstances should they absent themselves before getting their leave sanctioned by headquarters.

ii) In emergent cases, where absence without prior sanction becomes inevitable, permission of supervisory officer/AAO as the case may be should be taken in advance and sufficient proof or justification warranting such an action furnished along with their applications. For instance, leave applied for on medical grounds should be supported by a medical certificate obtained from an Authorised Medical Officer.

NOTE: Except in unforeseen and emergent cases, leave should be got sanctioned in advance and in cases of emergencies there should be intimation to the headquarters followed by a proper application. The details of leave should be marked in the attendance register by senior most member of the party immediately on receipt of application or intimation regarding absence.

(iii) While recommending leave to an Auditor / Sr. Auditor or applying for leave by an AAO, the senior AAO of the party should ensure that no extension of time is sought for completing audit of an institution. If at all any extension is required under exceptional circumstances, the period extended should be adjusted in subsequent institutions. Similarly, leave should be availed in such a manner that no scheduled programme of audit is cancelled and in no case, all the members of the audit party should avail leave simultaneously, resulting in cancellation of audit of an institution.

NOTE: In order to avoid delay in transmission of applications for leave submitted by the local audit staff the applications should be sent in a separate cover addressed to the Sr. Audit Officer, APM/OAD-III/ AMG-III/ECPA or AAO, APM/OAD-III/AMG-III/ECPA as the case may be.

(iv) CAG has ordered that subject to minor adjustment to suit administrative convenience, every endeavour should be made to ensure that the total number of holidays/closing days enjoyed by the field staff during the calendar year does not exceed that admissible under the orders of Government of India and that there is no shortfall in the total number of working hours. As there is variation in pattern of holidays observed by the State Government and Central Government offices, it has been decided that members of the field parties should observe holidays as observed by State Government Offices (including 2nd and 4th Saturdays) and work half an hour extra on all other working days to make good the loss on account of extra holidays.

(CAG's letters Nos. 2492-NGE-I/285-65-II dt:24.8.66 and 208-NGE-I/295-II dt:2.2.67 and Accountant General's orders dated:8.1.67).

Note: The State Government has directed that all heads of departments and offices should give full cooperation to the inspection staff by allowing them to sit half an hour longer.

(G.O.G. GAD letter No.IFT/1167-2911-GH dated: 18.7.67).

(v) No member of the inspecting staff should leave the place of halt without the previous permission of the Sr. A.O. (Hqrs.) when, however, a member of the inspecting staff is forced to leave his place of halt for urgent reasons, he should report the fact immediately to the Sr. Audit Officer (Hqrs) explaining the circumstances which required his absence from the place of inspection or halt in anticipation of orders.

3.20. Maintenance of casual leave account

In respect of parties manned from Rajkot based persons, the casual leave account should be maintained by the concerned APM/OAD-III/AMG-III Section. The tour diaries/TA bills should be checked by the APM/OAD-III/AMG-III Section at Rajkot.

In respect of parties manned from Ahmedabad based persons, their casual leave account should be maintained by Bills section at Ahmedabad. The parties should send one copy of the tour diary to APM/OAD-III/AMG-III Section at Rajkot and one copy to Bill Section at Ahmedabad. The travelling allowance bills should be sent to Ahmedabad. (Sr. Dy.A.G.'s orders dt:25.9.84).

3.21 Submission of weekly diaries:

The diary indicating the details of work done each day by each member of the local audit parties should be maintained in *Form XIII*. The AAO should see that all the columns of the diary are filled in properly and written up daily in such a manner that the responsibility for each item of work done can be definitely fixed on the person concerned.

The diary of all members of the party should be submitted to the Sr. Audit Officer when present to enable him to see that the necessary checks have been exercised and that the out-turn is satisfactory and should be attested by the Sr. Audit Officer. Wherever there is no supervision, the diary of the Auditor/Sr. Auditor should be attested by the AAO. Unattested entries will not be accepted and the person concerned will be treated as absent on these days.

Extracts of the diary should be sent by the Inspection Parties to APM/OAD-III/AMG-III section through the Supervising Officer when the duration of local audit exceeds seven working days i.e. every Monday. These extracts should be got approved by the Supervising Officers before they leave the camp.

(Where no Sr.AO supervises the work of the party; these extracts may be sent direct). The extracts should be scrutinised by the Sr. Audit Officer, APM/ OAD-III/AMG-III Section and submitted to the Group Officer.

NOTE: Weekly tour diaries should be forwarded to headquarters on the last day of week to which it relates so as to reach headquarters on first day of following week.

(CAG's Letter No. 173-O&M/12-75/1/ dated 24-9-1975 and OAD O.O. No. 212 dtd. 23.06.2006)

3.22. Submission of charge reports:

The reports of handing over of charge of AAOs in charge of OAD Parties should be prepared in triplicate in the prescribed formats. One copy each is to be retained by the relieving officer and relieved officer and the third copy forwarded to the Sr. Audit Officer APM/OAD-III/AMG-III who will bring important points if any to the notice of the Group Officer. The triplicate copy is to be filed thereafter in a separate file in APM/OAD-III/AMG-III.

The AAO in charge of the party should maintain a Register of books and files which should be handed over to the successor. The report of handing over charge of AAO should inter alia indicate the following:

State of work showing the extent to which the inspection has been carried out in the institution.

- Particulars of files etc. received from OAD (HQ) section.
- List of confidential files handed over.
- List of other files and registers.
- List of books (Codes, Manual etc.).
- List of secret books.
- File containing directions from Headquarters Sections (Vide.Para 2.05).

3.23. Objections and Audit Query statements.

(i) Before an objection is raised the connected papers relating to the transactions, which form the subject of the objections, available in the office inspected should be perused. A study of these papers will help in the drafting of the objections with proper emphasis on different aspects of the transactions. As far as possible, enquiry slips should be avoided for getting information which can be obtained from the office personally. Full particulars should be gathered before the issue of preliminary audit memo so that there may not be much difference between the preliminary audit memo (which should be self-contained) and the final paragraphs which will vary from the preliminary slips to the extent they are affected by the replies of the department. The work of inspecting AAOs will be judged by number of final paragraphs and not by the number of objections slips issued.

(ii) The initial enquiries and objections should not contain instructions to be followed in future. Instructions, wherever necessary, should be embodied in the Inspection Report or audit note after examining the explanation given for omissions, errors and lapses.

(iii) If a really flagrant case of irregularity is detected it should be investigated with utmost care and set out in such details as to ensure that the gravity of the breach of rule is clearly brought to the notice of the superior authority so that the audit office may be in a position to press the matter for proper action.

(iv) While AAO and Sr. Auditors/Auditors should not make any relaxations of their own motion, it is very important that the prescribed checks should be observed in the spirit and not in the letter as opposed to the spirit.

- (v) Objections should be written out on half margin forms which should be serially numbered and issued to the head of the office to furnish replies thereto.
- (vi) Replies to objections, which may mature into draft paras for the Audit Reports and regarding suspected defalcation etc., or other serious financial irregularities may be obtained promptly so that further observation if any, can be raised on the spot and further information if required, may be called for. Replies to all the audit observation memos so issued should be obtained before the audit is completed and Inspection Report is drafted.
- (vii) Objections which are simple, directions and instructions for future guidance should be included in Part-III of the Report. All the minor errors which are of no consequence to the finances of the State and can be set right on the spot should be so settled and the notes carefully filed. The value of an inspection is enhanced more by the number of points thus settled on the spot than by what is loaded in Audit Note.
- (viii) Isolated routine objections, need not, as a rule, be mentioned in the Audit Note but if a number of similar points are noticed, the type of error or irregularity with a few illustrative cases may be mentioned.
- (ix) Any office that is particularly careless and pays no attention to the directions or repeats the mistakes or habitually disregards the rules should be taken up by the OAD H.Q., in a special letter to the Head of the Department, care being taken to substantiate the charge of such disregard to rule, etc by sufficient evidence.
- (x) Whenever, any irregularity or delay which was noticed by the office inspected is taken up again by the Local Audit Staff the fact should be mentioned in the body of the objection and the reason why it is taken up again in audit distinctly brought out.
- (xi) Money values of objections should be specified wherever possible not only for those coming under paragraphs 830 of MSO (T) but also for cases of enquiries and remarks made on doubtful points which may have a potential money value (e.g., the amounts of contracts for which tenders are not called or where the lowest tender has not been accepted or values of extra concession granted to contractors but not provided for in the agreement.)
- (xii) Objections which can be waived under para 808 of M.S.O. Tech. Vol.I should not be embodied in the Report but should be put up to the concerned DAG of AMG groups for orders as per the note below paragraph 140 of MSO (Tech.) Vol.I.
- (xiii) All statements and allegations made and all figures furnished should be based on clear documentary evidence so that the Sr. Audit Officer may be in a position to press for proper action.
- (xiv) The names of the officers responsible for the irregularities should be kept on record in the rough notes in all cases of serious irregularities.
- (xv) When a letter or a Government order is quoted which in the opinion of the Assistant Audit Officer may not be available in the Central Office, a copy of it should be sent along with inspection report for the information of the Central Office.

(xvi) The Local Audit Staff should go through all the Inspection Notes of Departmental Office during the period of audit as valuable hints are likely to be obtained from these sources. This point requires special attention during audit.

3.24. Issue of audit query statements:

i) All objections as disclosed by audit should be recorded on the preliminary objection memo.

ii) The preliminary objection memoranda should be prepared in duplicate copies. While issuing the preliminary objection memo, the period within which the memo should be returned to the Audit Party, along with its reply of compliance, should invariably be mentioned therein so that its return within the specified time can be insisted upon by contacting the highest official in the office, if necessary. Whenever the objection or the point raised is not settled from the reply and a remark in the inspection report or objection statement is necessary, the departmental reply and arguments put forth by the department should be shown in objection statement along with further remarks as to in what way the departmental reply is incomplete or not acceptable. This would expedite clearance of objections as the department would not like to offer the same reply again when the report is issued. Wherever replies to the preliminary memos have been furnished even after the completion of audit, details of such memos, with a gist of the points raised therein should be incorporated in the introductory paragraph in the relevant inspection reports, after detailing also the documents, if any, that were not produced to audit. OAD (Hqrs) should take special notice of this paragraph of the inspection report and arrange to report the matter to the Head of the Department concerned or the Government.

(O.O. No. 14 dated:16.2.1961 and OAD-II/3 dated: 14.8.1963).

iii) The supervising Sr. Audit Officer should make independent scrutiny of the case sought to be commented upon by the other members of the audit party in the inspection memos prepared/issued by them and ensure that the more important audit observations are not diluted or excluded or minor ones highlighted due to lack of experience or otherwise of the members of the party.

iv) Sr. Audit Officer will have the discretion to permit individual members to draft memos themselves and see them after issue in due course or to stipulate that the memos may be issued only with his approval. As the Sr. Audit Officer is responsible for the efficiency of the inspection as a whole, it is enough if the memo is approved by him for issue and ensured that the observation is in order. The inspecting officer should always keep himself posted with the progress of audit and the observations that have been communicated to the office inspected. Please see Para 3.11(iii) also.

(Para 6.1.8 of MSO(Audit), Second Edition 2002).

v) The query statement should be issued as soon as it is written up and not in lump towards the close of the inspection. Each page completed should be numbered serially and made over to the head of office or the chief ministerial officer subordinate to him and his dated acknowledgement obtained on the duplicate.

The Audit Enquiries should be serially numbered and dated and should be indexed in the AE Docket in the following Proforma

LIST OF AUDIT ENQUIRIES ISSUED

AE No /Date 1	Subject 2	Dated Acknowledgement 3	Date of receipt of reply 4
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vi) Every effort should be made to get back promptly the audit query statements with the replies of the head of office inspected. The Draft Inspection Report should in no case be delayed due to non-receipt of replies to the preliminary audit observations issued to the departmental officers. The preliminary audit observations issued to the departmental officers are mainly intended to convey the defects/irregularities etc. observed by the audit party and to give an opportunity for the head of the office to offer reasonable explanation for the omissions and lapses. There is no point in the audit party waiting for a reply from the departmental officer for drafting the reports as it is primarily the responsibility of the departmental officer to satisfy the audit by way of furnishing replies to the audit observations and if they fail, the points find a place in the report and the department has to give a reply later. The audit party should impress this upon the heads of offices at the outset and tell them to furnish replies to audit query statements as and when received. Sr. Audit Officers in the course of their inspection should also impress upon the heads of offices the necessity of returning the audit query statements on the same or the next day. If the replies are not received promptly the fact should be brought to the notice of the head of office and the result reported to the Group Officer of AMG groups in a separate note along with the draft inspection report and test audit notes. The Group Officer of AMG groups will report the matter to the Secretary to Government of the Department concerned and the Secretary to Government, Finance Department if he considers necessary.

3.25. Audit evidence:

(i) Competent, relevant and reasonable evidence should be obtained to support the auditor's judgement and conclusions regarding the organization, programme, activity or function under audit.

(ii) Since auditors seldom have the opportunity of considering all information about the audited entity, it is crucial that the data collection and sampling techniques are carefully chosen. Auditors should satisfy themselves that the data, including computer-based system data, are reliable and relevant.

(iii) Auditors should have a sound understanding of techniques and procedures such as inspection, observation, enquiry and confirmation, sufficient to reasonably detect all quantitatively material errors and irregularities and to collect audit evidence. The evidence should be competent, relevant and reasonable.

(iv) Auditors should adequately document the audit evidence in working papers, including the basis, extent of the planning, the work performed and the findings of the

audit to enable an experienced auditor having no previous connection with the audit to ascertain from them the evidence that supports the auditor's significant findings and conclusions.

(Auth: Para 3.5.1 to 3.5.5 of Auditing Standards of INTOSAI)

(v) The Supervising officer and the members of the OAD party should bear in mind the above provisions while taking an audit point for inclusion in the inspection report.

(vi) Whenever satisfactory explanation is not forthcoming and the Inspecting Officer feels that the points raised by him are so important that they may ultimately find a place in Audit Report to be submitted to the legislature, he should take particular care to collect all relevant information and also to take attested copies of those documents which are likely to be useful in pursuing the matter with their higher authorities.

(vii) While editing draft paragraphs for the Report the PAG/AG/CAG's office often detects certain missing links in the facts and arguments set forth in the original inspection report on which the paras are based. The information required cannot be obtained except by reference to local records; with the result that the draft paragraphs have to be either abandoned or their consideration postponed for an indefinite period. Such a situation will not arise, if the inspecting officers exercise adequate attention in this regard.

(viii) No objection should be dropped without the specific written orders of the officer-in-charge of the party. The officer-in-charge of the party should not accept replies as "noted", "being attended to" etc. from the office inspected. He should encourage the head of the office to give suitable explanations for omissions and errors so that they are rectified as far as possible at the time of inspection.

(ix) If the replies to the audit queries are incomplete or inadequate, the pages concerned should be made over again to the local officer who furnished the reply with a request for their immediate return with further remarks to clarify the points.

(x) In settling minor audit queries and objections during the course of inspection, the inspecting officer should hand over to the head of office the duplicate copy of the objection statements to enable the latter to keep a record of his replies and the action that he should take.

3.26. Departmental Inspection Reports and their utilisation

As the reports of the departmental officers, will give the inspection parties an idea of the defects and irregularities noticed by the department and the instructions issued by the department from time to time, the OAD parties should scrutinise these reports at the time of the audit of such institutions and utilise the information after verification, for the purpose of their audit. No comments should however, be included in the report on the orders of the departmental authorities without taking the specific orders of the Central Office and such points should be referred to in the form of a separate note.

3.27. Use of Codes and Manuals

For conducting an intelligent and efficient audit or inspection, the inspecting staff should have an intimate knowledge of the various account codes and manuals and any special rules relating to the accounts should also be conversant with subsidiary rules issued from time to time. The Headquarter sections of the outside audit department should arrange to supply to the parties a complete set of these books. The Assistant Audit Officer in charge of the parties should ensure that all corrections communicated to them are noted in the copies of codes, etc., supplied to the parties.

3.28. Internal Control System in Government Departments.

(1) The functioning of any organization or entity is based on a system which is an orderly arrangement of separate but interdependent and interacting activities and related procedures which implement and facilitate the performance of an organization. The system, among other things should also consist of appropriate controls, checks and balances to safeguard against errors, frauds, etc. The existence of an adequate system of internal control minimizes the risk of error and irregularities.

The entity should adopt sound practices like locked store rooms with access restricted to authorised persons only, surprise physical verification of cash, bank reconciliation by independent persons, payments after pre-check, institution of checks to see that transactions are properly authorised, dual custody of valuable negotiable assets, independent periodic verification of the existence of recorded material resources, etc.

Internal Control is a process established by the management to provide reasonable assurance regarding the achievement of objectives in the areas of effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable rules and regulations. The components of internal control include risk assessments, accounting information, control activities and monitoring.

Internal audit and internal control mechanism are integral parts of the administration that carries out the basic internal audit functions for the management. Unlike statutory audit, it is not independent of the management control and hence debilities in the internal audit system would have to be seen as debilities in the administrative accountability structure.

Therefore, while evaluating the Internal Audit system of a department, the audit scrutiny should be focused on effectiveness of the system in enforcing the adherence to various control measures envisaged in the Rules and Regulations, Codes, Manuals, etc. Some parameters are suggested below:

- Organization of Internal audit functionaries, independence enjoyed by the Internal Audit wing;
- Internal Auditing standards set by the Government;
- Responsibilities and Duties of Internal Audit organization
- Training of audit personnel;
- Planning of Internal Audit – Whether based on risk-indicators corroborated through risk analysis;
- Adequacy of coverage and periodicity of the audit;
- Inspection Reports issued by Internal Audit, timeliness of responses to the audit observations and volume of pendency (analyzed year-wise for five years);

- Pendency in Internal Audit coverage;
- Overall effectiveness of Internal Audit in terms of:
 1. Departmental compliance to internal audit observation;
 2. Systems corrected at the instance of Internal Audit;
 3. Recourses and penal actions undertaken at the instance of Internal Audit; and
 4. Quality checks exercised – Evaluation of the parameters.
- Special Audits done by Internal Audit wing and their outcome.

Greater effectiveness of internal audit by implication would ensure greater efficiency of administration and consequently would attract lesser criticism from statutory audit systems and procedures would be corrected on an ongoing basis, providing a concurrent support system to administration.

The auditor, in determining the extent and scope of audit, should study and evaluate the reliability of internal control. The study should be carried out according to the type of audit undertaken.

In the case of regularity (financial) audit, study and evaluation should be made mainly on controls that assist in safeguarding assets and resources and assure the accuracy and completeness of accounting records.

In the case of regularity (compliance) audit, study and evaluation should be made mainly on controls that assist management in complying with laws and regulations. The auditor should design audit steps and procedures to provide reasonable assurance of detecting errors, irregularities and illegal acts that could have a direct and material effect on the financial statement amounts or the results of regularity audit.

The study and evaluation in respect of performance audit should be on controls that assist in conducting the business of the audited entity in an economic, efficient and effective manner ensuring adherence to management policies and producing timely and reliable financial and management information.

Those planning the audit should be knowledgeable of the compliance requirements that apply to the entity being audited. The auditor should be alert to situations or transactions that could be indicative of illegal acts that may indirectly impact the results of the audit. When audit steps and procedures indicate that illegal acts have or may have occurred, the auditor should determine the extent to which these acts affect the audit results.

The auditor should exercise due professional care and caution in extending audit steps and procedures relating to illegal acts so as not to interfere with potential future investigations or legal proceedings.

In designing steps and procedures to test or assess compliance with laws and regulations by the audited entity, auditor should evaluate the entity's internal controls and assess the risk that the control structure might not prevent or detect non-compliance. The changes and improvements in the internal control system made by the management when there have been previous instances of fraud and corruption or in response to changes in the auditee environment should be particularly studied and evaluated during audit.

Where accounting or other information systems are computerized, the auditor should determine whether internal controls are functioning properly to ensure the integrity, reliability and completeness of the data.

(Auth: INTOSAI – Guidelines for Internal Control Standards for Public Sector)

(1) Auditors shall conduct a risk assessment or problem analysis and revise this as necessary in response to the audit findings. The nature of the risks identified will vary according to the audit objectives. The auditor shall consider and assess the risk of different types of deficiencies, deviations or misstatements that may occur in relation to the subject matter. Both general and specific risks shall be considered. This can be achieved through procedures that serve to obtain an understanding of the entity or programme and its environment, including the relevant internal controls. The auditor shall assess the management's response to identified risks, including its implementation and design of internal controls to address them. In a problem analysis the auditor shall consider actual indications of problems or deviations from what should be or is expected. This process involves examining various problem indicators in order to define the audit objectives. To facilitate the process of risk assessment or problem analysis data from multiple sources may be collated and/or combined to gain insights and discern patterns.

Technology and data analytical techniques may be appropriately utilised in the process. The identification of risks and their impact on the audit shall be considered throughout the audit process.

(Authority: Para 2.5.2. (b) of Auditing Standard 2017)

(2) The Audit parties auditing major institutions like Government Secretariat, Directorates and district level offices may fill up the questionnaire (specimen given in the *Annexure-IV* to this chapter) and include a paragraph in the inspection report on the internal control environment of the institution after evaluating the replies on the basis of the questionnaire. Audit parties auditing smaller institutions need not send the questionnaire answered but include a paragraph in the inspection report on the system available in the institution.

3.29 Settlement of previous inspection reports:

(i) Opportunity should be availed of at the subsequent inspection of the same office in order to verify the replies of the department and /or to re-examine the points more thoroughly taking into account the later developments as well. All points in the previous inspection reports which have been marked for the next audit should be examined. If the points have been settled since the last inspection, this should be recorded by inspecting AAO in the covering note forwarding the inspection report over his initials.

(ii) It should be seen that defects reported in previous inspection reports and objection statements have been remedied as promised in the replies either by production of the required documents etc. or by the recovery of over payments, or by the adoption of the procedure suggested. Further correspondence, if any, on the replies to the notes should also be gone through with a view to seeing how the various matters referred to were actually settled. In all cases where the promised action has not been taken, attention

should at once be drawn to the matter and in cases of recoveries or missing documents the office should be given every opportunity for effecting recoveries or supplying the omissions before the completion of audit. If however, the promised recoveries have not been effected and the documents required etc. have not been produced by the time the audit is completed, the fact should be clearly mentioned in the report with a brief description of the nature of the receipt or charge. Should, however, the action needed relate only to procedure, it would ordinarily suffice (unless the matter is of great importance) if attention is drawn to the notes with such additional remarks as are called for. In the case of inspection reports which revealed serious irregularities in the last audit, the action taken by the responsible authorities should particularly be watched. If no action has been taken or the results are unsatisfactory, the matter should be reported separately to the concerned Group Officer AMG groups.

(iii) OAD (HQrs) section will send all the outstanding inspection reports pertaining to the institutions to be inspected to the inspecting party for being settled locally, to the extent possible. The section dealing with the inspection report should examine in detail all important points before sending the files for reference at the time of subsequent inspection of the offices concerned and direct the audit parties under the orders of concerned Group Officer of AMG groups on the lines on which the points should be further examined on the spot. The idea is, once a serious irregularity is brought out it should be possible to prepare draft paras straight away. In case some information is still wanted and it is not possible to collect the information quickly by correspondence, then it should be collected on the spot so that the paras can be finalised at least soon after the next visit of the audit party to the offices.

(iv) The Inspecting Officer will return the reports to OAD (HQrs) section with a verification memo in **Form IX** indicating the action taken on the outstanding paras in the report along with the current inspection report and a statement in **Form-B** shown below:

Form-B

- 1) Name of office inspected: _____
 2) Name of section in Central Office which attends to the inspection reports of the institution: _____

Details of IRs reviewed by the party		No of Paras pending in the Report	No of IRs/ Paras cleared at the time of local audit	Balance of IRs and Paras	Remarks
Sl.No.	Year and Period		IR Para	IR Para	

In respect of each outstanding paras the parties/ Inspecting Officers should indicate:

- (i) The development of the case since last audit.
- (ii) Whether in the light of the developments, the para/objection can be dropped, and if not, a comprehensive para has been proposed for the current report so that headquarters section can consider whether the para can be dropped.

(iii) Whether in the light of subsequent development, the irregularity is fit for comment in Audit Report. If so, copies of all related correspondence/documents should be furnished to headquarters section along with the draft of the para to enable headquarters to process further and finalise it.

The OAD (HQrs) Section will check the inspection reports with the statement, consolidate the reports received from the inspecting parties and submit a report to the Group Officer on the prescribed date of each month along with the statement in Form B and a review indicating the number of reports closed and the number of paragraphs settled during local audit.

3.30. Items of work in addition to the usual audit:

Clearance of outstanding objection pertaining to audit sections:

(i) When the local audit of an institution is proposed to be taken up, the OAD section concerned will examine the objection books and make out a list of all objections outstanding in respect of that institution. This list should be prepared in the prescribed form Sy.SPL/K.38 and forwarded demi-officially to the Head of the Office to be inspected, so as to reach him at least a week before the date of commencement of inspection. The Head of office may be requested to examine the objections and keep all relevant records ready for verification by the local audit party. (A copy of the covering D.O. Letter should be endorsed to local audit party). The Supervising Officer/AAO should record his remarks as a result of discussion and verification in the relevant column of the statement with specific recommendations, whether the objection can be admitted or not. It is not enough if the inspecting parties merely transmit the lists along with replies of the departmental officers, without factual verification. If the lists forwarded by the Central Office contain any item for which reply has already been furnished by the office inspected, such item should be specifically reported. After verification, the local audit parties should send back the statement of objections along with their remarks to the concerned sections and attach a statement in **Form-A** shown below to the Inspection report sent to OAD (HQ)rs.

FORM-A

Name of office inspected: _____

Name of Section in Central Office which attends to the audit of the institution: _____

Year	Objections Communicated		Objections Cleared		Balance		Remarks
	Number	Amount	Number	Amount	Number	Amount	
1	2	3	4	5	6	7	8

Place:

Date:

Signature of Inspecting
AAO

(ii) On receipt of the statement from the parties, OAD (HQ) Section should send the list to the Branch Officer of the Section concerned for further action.

(iii) If the objections cannot be settled locally, the Supervising Officer/AAO will state the reasons or his inability to settle the objection. If records are not produced, or if the office staffs of the department is non-co-operative or indifferent, the fact should be specifically indicated so that OAD (HQ) Section can take up the matter at appropriate level.

3.31. Quarterly conference of field parties

As per directions contained in the Headquarters Office letter No. 106-O&M/1-93 dated 26-2-1993, a conference of supervising officers and members of field parties is conducted in every quarter to improve efficiency and functioning of the parties and also to obtain first-hand information on the state of work. The meetings are to be duly minute to form an authenticated record for reference during future meetings.

Annexure-I
(Referred to in Paragraph 3.01 (iii))

Declaration regarding adherence to the Code of Ethics of the Comptroller and Auditor General of India

(This declaration is required to be signed separately by each member of the audit team prior to the commencement of the audit. A copy of the declaration should be given to the head of the audited entity as soon as the audit commences. Each declaration should be enclosed in original with the Inspection Report).

I, Shri/Smt/Kum _____ (name), _____ (designation) hereby declare that:

- I have read and understood the SAI India's Code of Ethics.
- I will uphold and abide by the SAI India's Code of Ethics and the CCS (Conduct) Rules.
- I do not have any personal or professional interest in the audited entity.

As a representative of the SAI India, I undertake to adhere to the following:

- I will conduct the audit assigned to me in a fair, honest, timely and competent manner.
- I will maintain strict confidentiality of all information gathered in the course of audit.
- I will not behave or conduct myself in an inappropriate manner with any official of the audited entity.
- I will not accept any kind of inducement prohibited under the Central Civil Services (Conduct) Rules, 1964, directly or indirectly from the audited entity.

Signed: _____

Date: _____

(Authority: Para 3.01(b)(a) of the Code of Ethics)

Annexure-II
(Referred to in Paragraph 3.01 (iii))

Declaration regarding adherence to the Code of Ethics of the Comptroller and Auditor General of India

(This declaration is required to be signed separately by each individual who has been engaged as an expert, consultant, statutory auditor, etc by the SAI India to assist him in his auditing and accounting functions. A copy of the declaration should be given to the head of the audited entity as soon as the audit commences. Each declaration should be enclosed in original with the Report required to be submitted to SAI India).

I, Shri/Smt/Kum _____(name), _____ (designation) hereby declare that:

- I have read and understood the SAI India's Code of Ethics.
- I will uphold and abide by the SAI India's Code of Ethics.
- I do not have any personal or professional interest in the audited entity.

As a representative of the SAI India, I undertake to adhere to the following:

- I will conduct the audit assigned to me in a fair, honest, timely and competent manner.
- I will maintain strict confidentiality of all information gathered in the course of audit.
- I will not behave or conduct myself in an inappropriate manner with any official of the audited entity.
- I will not accept any kind of inducements, including gifts and hospitality, directly or indirectly from the audited entity.

Signed: _____

Date: _____

(Authority: Para 3.01(b)(a) of the Code of Ethics)

Annexure-III
(Referred to in Paragraph 11(i))

INDIVIDUAL WORK PROFILE

Name of the Institution :
Period of Audit :
Dates of Audit :
Dates of Absence due to leave/training :
No. of audit Enquiries issued : (AE Nos)
Documents Checked (Give details such as the name of Register, File Number and Subject, Name and month of Return / Report, Voucher Number, Number of Service Books checked etc. (If the documents belong to a lower formation give name of office also)
1.
2.
3.
4.
5.
6.
7.
8.
9.
10.

Signature

Date

Countersigned

Sr. Audit Officer

Annexure-IV
(Referred to in Paragraph 3.28(2))

Name of the institution:

Audit Party Number :

Period of Audit :

Dates of audit :

INTERNAL CONTROL MECHANISM

Note: This form is to be filled by the Supervising Officer if present. Otherwise it should be filled up by the senior most member of the party. Give specific reply to each question. Do not leave any question unanswered or answered with dashes or dots. If any question is not relevant for an auditee institution, answer it as **Not Applicable**. On the basis of the questionnaire an evaluation of the internal control mechanism should be included as a paragraph in the Draft Inspection Report.

Budgetary Control		
Whether		
i)	The budget of the Organization is prepared with due diligence and care?	
ii)	Expenditure conforms to the budget?	
iii)	There was excess / savings?	
iv)	Excess/savings persistent?	
v)	Allotment is as per requirement?	
vi)	Allotment is received in time to enable fruitful expenditure?	
vii)	There was rush of expenditure in March?	
Expenditure Control		
Whether		
i)	The cash book is standard one with machine numbered pages?	
ii)	Transactions are recorded in the cash book as and when they occur?	
iii)	There is a system of daily closing of cash book?	
iv)	The head of office verifies cash balance periodically?	
v)	The custodian of money is the writer of cash book?	
vi)	System of reconciliation is effective?	
vii)	Recoveries to be remitted to other heads are remitted in time?	
viii)	Advances are adjusted in time?	

ix)	More than one advance for the same purpose is pending adjustment against same officer?	
x)	Money is kept in the office in any form for long periods?	
xi)	There is unnecessary drawing of funds?	
xii)	Purchases are made as per approved rules and procedures?	
xiii)	Purchases are as per requirements?	
xiv)	Rules' regarding approval of estimates/acceptance of tenders/issuing purchase orders etc. strictly followed?	
xv)	System of stock taking, custody and issue of store are as per rules?	
xvi)	Stores ledger and accounts are properly kept?	
xvii)	Assets are safeguarded against fraud/error?	
xviii)	Physical balance and book balance are compared and tallied?	
Operational Control		
Whether		
i)	There is delegation of powers and division of responsibilities and they are documented and followed?	
ii)	There is proper system to watch the receipt processing and disposal of correspondence?	
iii)	The arrears in the disposal of correspondence is brought to the notice of the Head of Office at fixed intervals?	
iv)	The system of opening new files, their movement and upkeep is satisfactory?	
v)	Implementations of schemes/projects are monitored satisfactorily?	
vi)	The registers/records etc. to be maintained are prescribed?	
vii)	Various registers/records are kept up to date?	
viii)	Returns/reports due from lower formation are received in time?	
ix)	They are compiled and analyzed and used as monitoring tools?	
x)	Returns due to controlling officers are sent in time?	
xi)	Such returns conform to the actual performance of the Organization?	
Inspections/Conferences		
Whether		
i)	The office is inspected at prescribed intervals by the controlling officers?	
ii)	The lapses pointed out are rectified in time?	
iii)	Lower formations are inspected by the office as prescribed?	
iv)	The lapses pointed out are followed up to the logical conclusions?	

v)	Decisions of conferences/meetings are minuted?	
vi)	The decisions are implemented in time?	
Computerization		
Whether		
i)	The organization has a policy of computerization?	
ii)	The policy conforms to the objectives of the Organization?	
iii)	The requirement of hardware/software are properly assessed and documented?	
iv)	Purchases of hardware/software are as per requirement?	
v)	Trained personnel are available?	
vi)	The systems are installed and put to use?	
vii)	The systems are properly safeguarded against fraud/ error?	
viii)	The proper controls have been defined and put in place?	
ix)	There was any improvement in quality of service/ expenditure as a result of computerization?	
If the auditee institution is a Directorate under the Government, it may be stated		
Whether		
i)	Proposals for financial assistances from lower formations/other client organizations to Government are routed through the Directorate?	
ii)	The views of the Directors are taken by the Government on the schemes and proposals before ordering the Director to draw and disburse amounts to clients?	
iii)	There is a mechanism in the directorate to ensure proper utilization of the amount drawn and disbursed by the Director at the instance of Government?	
iv)	The terms and conditions regarding utilization, rate of interest and repayment are fixed before the disbursement of loan/ subsidy, etc.?	
v)	Amounts due to Government are adjusted from the assistance sanctioned to the client organizations?	
vi)	Share certificates are received in all cases where share capital contribution is paid by Government?	
vii)	Guarantee commission is received/ recovered in all cases wherever required?	
viii)	There are instances of the financial institutions invoking Government guarantee for non-fulfilment of the conditions by client organizations?	
Internal Audit		
Whether		
i)	There is an internal audit organization in the department?	
ii)	There are codes/ manuals etc. defining and supporting audit	

	function?	
iii)	Such manuals are reviewed and updated?	
iv)	Any standards set by the top Management?	
v)	The duties and responsibilities are clearly defined?	
vi)	The audit staffs are properly trained?	
vii)	Any separate cadre of auditing staff exist or are they deployed from line staff for a specific period?	
viii)	Any audit plan is prepared and approved by the top executive?	
ix)	There are any criteria for selecting field units for audit?	
x)	The periodicity of audit is uniformly followed?	
xi)	The extent of coverage is satisfactory?	
xii)	There is any abnormal delay in issuing Audit Report?	
xiii)	The volume of pendency of audit is justifiable?	
xiv)	The quality of checks is satisfactory?	
xv)	Replies to audit reports are received in time?	
xvi)	Reports and objections are pending settlement for long?	
xvii)	Any persistent irregularities reported?	
xviii)	Any departmental action taken for non-compliance to audit observation?	
xix)	The cost-effect analysis justify the system?	
xx)	Internal audit makes contribution for the speedy settlement of objections raised by Accountant General through his reports?	

Response to Audit		
Whether		
i)	All the required files/documents were made available to audit?	
ii)	From the files/ documents made available a reasonable opinion as to the functioning of the Organization is possible?	
iii)	The audit slips were properly accepted and answered?	
iv)	Replies were furnished to all previous Inspection Reports?	

Signature.....

Name.....

Designation.....

CHAPTER-IV

GENERAL PRINCIPLES AND PROCESS OF AUDIT

4.01 The general principles to be observed in inspection and local audit of the initial accounts of Government offices and institutions are laid down in the Manual of Standing Orders (Audit), Second Edition, 2002, Volume I issued by the Comptroller and Auditor General of India. These and other instructions to be followed generally in the audit of these accounts are summarised below:

The special rules and instructions applicable to the accounts of certain offices or institutions are given separately in Chapter-22. The procedure for the selection of months for detailed check and the extent of checks to be exercised in local audit are detailed in the Secret Memorandum of Supplementary Instructions regarding extent of audit. It has been ordered by the Comptroller and Auditor General that it is for audit to decide as to what is to be treated as outside their purview. In future, in all cases where department takes a view that records in respect of payment to question setters, moderators, printers of question papers etc. are of secretive or confidential nature, audit should be stopped then and there and the matter referred to OAD (HQrs) for further instruction.

It has also been made clear by the CAG's Office that the accounts procedure relating to public examination conducted by the State Public Service Commission etc., are to be brought in tune with the examinations conducted by UPSC, and all accounts, documents relating to various examination are subjected to audit.

4.02. Receipts

The general rules regarding the audit of receipts are given in paras 2.3.1 to 2.3.16 of MSO (Audit) Second Edition-2002. The various processes and stages of collection and accounting of receipts should be intelligently examined in order to ensure that there are no weak points in the system which may lead to leakage of receipts or commission of irregularities. It should also be seen that:

- (a) Adequate regulations and procedure have been framed to secure an effective check on the assessment, collection and proper allocation of revenue;
- (b) Such regulations and procedure are being observed;
- (c) Where any financial rule or order prescribes the scale or periodicity of recoveries, there is no deviation from such scale or periodicity without proper authority;
- (d) A register of all recurring and non-recurring demands is kept in accordance with the rules, and collections watched against it;
- (e) Arrangements for collection are satisfactory and there are no outstanding requiring special notices;
- (f) Payees are invariably granted machine-numbered receipts in the prescribed form, a proper stock account is kept of all receipt books, the stock thereof is periodically

- Verified and a certificate of actual count of receipt forms in a receipt book recorded before a Receipt Book is issued from stock;
- (g) Moneys received are brought to account immediately and ordinarily there is no undue delay in their remittance into treasury;
 - (h) The return of the counterfoils of used receipt books is properly watched and the counterfoils are recorded after check so as to avoid delay or omission in bringing the receipts to account; and
 - (i) The responsibility of conducting the internal checks on the lines of (d) to (h) above is held by some responsible official with recorded evidence to that effect;
 - (j) that proper receipts are issued by authorised persons;

4.03. Audit of Demand Register

- (i) The demand Register should be examined to see that :
 - (a) All demands have been correctly noted in the register;
 - (b) All sums due are received and checked against demands, and the demands are realised punctually and fully.
- (ii) It should be examined whether the names of all persons from whom taxes, fees or other revenue are due have been noted in the demand register. The register should therefore, be checked with other registers, roll or other records maintained. It should further be seen that the closing balances of the previous demands have been correctly brought forward, and all amounts shown in the counterfoils of the receipts granted to the parties have been noted in the demand register and credited in the Cash Book.

4.04. Audit of Receipt Books:

The stock account of duplicate carbon or counterfoil receipt books should be examined to see that:

- (a) The number of receipt books received agrees with the indent or requisition made for the same and that all such receipt books are kept under lock and key by a responsible officer;
- (b) Only one book is issued to an individual officer on return of the previous used up book;
- (c) The number of receipt forms contained in each book is recorded on the covering page under the initials of a responsible officer and all the forms are machine numbered;
- (d) The issue of a receipt book and the return of a used up book are duly acknowledged;
- (e) As for cancelled receipt forms both the original and the duplicate are retained in the receipt book; and
- (f) The closing balance in the stock account is verified by the head of office, by actually counting the number of receipt books in hand at the end of each month and a certificate to that effect is recorded in the stock account.

4.05. Audit of money value forms

It should be seen that:-

- (a) the opening balance agrees with the closing balance of the earlier period;
- (b) all the forms received through the indents/by local printing have been brought to account;
- (c) the issues are supported by acknowledgements and the moneys realised have been credited on the date of realisation; and
- (d) the closing balances of forms are struck periodically and have been subjected to physical verification;

4.06. Audit of Expenditure.

The general rules regarding the audit of expenditure are given in Paras 2.2.1 to 2.2.46 of MSO (Audit) Second Edition, 2002. The main points to be looked into while taking up the local audit of expenditure are detailed below:

It should be seen that:

- (a) There is proper sanction, either special or general, accorded by competent authority authorising the expenditure;
- (b) The payment has actually been made, and to the proper person and it has been acknowledged and recorded so that a double payment on the same account would not be possible;
- (c) The charges incurred do not exceed any rate or scale fixed under the rules or orders issued by competent authority;
- (d) The expenditure has been incurred with due regard to financial propriety, e.g. supplies in excess of requirements have not been obtained, the purchases have not been made at unreasonable rates and the expenditure has been incurred only for legitimate purposes, etc.
- (e) Vouchers which are not required to be sent to the Audit Office are kept on record duly cancelled so that they cannot be used again; (these voucher should be examined during local audit)
- (f) Entries in the local accounts are properly vouched;
- (g) The acquaintances of menials for whom pay has been drawn on contingent bills, have been duly taken in the office acquaintance rolls;
- (h) The entries of payments in the local accounts have been initialled by the disbursing officer after examination;
- (i) All materials and stores billed for, have been brought on to the respective inventories;
- (j) The articles or materials billed have been purchased on tender system, as prescribed in the financial rules of the Government concerned and that in case of non-acceptance of the lowest tender, the reasons for such non-acceptance have been recorded in writing;
- (k) Contract agreements for the supply have been executed;
- (l) The quality and quantity of stores have been certified as correct before payment;
- (m) The rates paid are not in excess of the accepted market rates;
- (n) Suitable notes regarding payment have been recorded against the original indents and the invoices concerned to prevent double payment;
- (o) On the sub-vouchers, dates of payment are recorded;

- (p) The details when added up tally with the totals;
- (q) There are no erasures and any alteration in the figures have been attested by the drawing officer and the expenditure has been recorded under the correct heads of account; and
- (r) Expenditure has not been incurred with a view to preventing the lapse of budget allotment, or charges incurred in one year have not been met from the budget allotment of the next year;
- (s) Where fees are realised to meet certain payments on behalf of private parties, the total expenditure on this account during the year has not exceeded the fees received; and
- (t) Expenditure on contingencies, works, etc. is being properly regulated according to the financial rules and the accounts indicate no laxity in supervision and control.

4.07. Audit of establishment vouchers

The establishment vouchers should be subject to those checks during local audit in the manner and to the extent indicated:

- (a) The establishment vouchers relating to the establishment should be checked by the Inspection Parties with cash book, office copies of the pay bills, acquaintance rolls, treasury bill books etc.

Acquaintance rolls and the register of undistributed pay and allowances are examined to see that each amount shown as disbursed has been disbursed to the persons entitled to receive them and the arrangement for keeping a proper watch over the undisbursed amount is satisfactory,

- (b) Besides the overtime allowance claims, children's education claims, reimbursement of tuition fees claims and TA bills should be checked with reference to the local records kept in the departmental accounts offices to ensure the correctness of the certificates on the basis of which the claims have been drawn and to see that the rules and regulations in regulating such claims have been followed,

- (c) The pay and allowances drawn for each individual as per vouchers taken from the central office are compared with the corresponding entries in the office copies of pay bills,

- (d) It should also be checked that no payment has been made to a Government servant beyond his attaining the age of superannuation or on the expiry of terms of extension of service sanctioned by competent authority. The audit endorsement duly signed by the in charge of the inspection party is required to be made in the service books checked during the audit.

- (e) The months selected for test audit are to be adopted for number audit as well as nominal audit.

- (f) Audit against sanctioned strength of establishment will be done with reference to the orders of competent authority for the creation/continuation of the posts in the offices visited. In the case of establishments

borne on provincial or circle scales, the records maintained by the cadre controlling authorities to ensure that the number of officials employed does not exceed the sanctioned strength should also be checked during local audit of the offices of such cadre controlling authorities.

(g) The results of audit of establishment pay bills, Service Books and leave accounts should be incorporated in separate paras in Part II or Part III as the case may be, of the inspection report. A certificate to the effect that nominal audit and number audit of establishment pay bills, audit of increment certificates, checks of pay fixation on promotion/reversion, check of service books and leave accounts and check of office copies of bills and acquaintance rolls have been conducted to the extent prescribed, should invariably be furnished along with each inspection report.

(h) Cases of increments sanctioned to the members of establishment of the office under inspection and cases of fixation of pay on promotion/reversion during the period covered by local audit can be integrated with that of check of service books done, as a process of other local audit checks, during audit of all departmental offices.

(i) As regards the procedure for audit pay bills of gazetted officers in whose cases the system of issue of pay slips by Account Officer has been dispensed with and salary and allowances are drawn in the same manner as the non-gazetted establishment the existing system of check in Central Audit will continue.

(j) Headquarters office has reported some instance of fraudulent drawl of pay and allowances that have occurred in some States by preparing fictitious pay bills of a few employees every month and has instructed all audit group to exercise extra care and vigilance to prevent similar and other frauds. During local audit, monthly salary bills should be scrutinised with reference to the actual staff strength. Special attention should be paid in the Attendance Registers/ acquaintance rolls/Register of Service Book, Register of sanctioned posts, GPF/GIS account numbers and such other relevant records and information.

4.08. Audit of Contingent Vouchers:

General rules regarding audit of contingent vouchers are given in Paras 3.4.1 to 3.4.19 of MSO Audit (Second Edition) 2002.

- (i) It should be seen, in addition to the points mentioned in the above paragraphs that:
 - (a) The sub-vouchers contain pay orders signed by competent authority and they are supported by payee's acknowledgement with date of payments;
 - (b) The details given in sub-vouchers agree with entries in other registers or records maintained in the office, e.g. the number of days of attendance in court as shown in the Witness Register of the Court, or the stores purchased agree with the Stores Ledgers etc.
 - (c) The totals are noted in words as well as in figures;
 - (d) Any alterations in the figures have been attested by the officer authorising payment;

(e) Revenue stamps have been affixed to the payees' receipts in all vouchers for sums over ₹5000/- and the stamps have been defaced.

(ii) In auditing the accounts of offices which normally incur heavy contingent expenditure, it should also be seen whether any of the following common irregularities exist: -

- (a) Heavy payments made to firms in cash instead of by cheque or bills endorsed in favour of the firms which is in contravention of the instruction contained in Rule 303 (i) of the Compilation of the Treasury Rules or the corresponding Rules of the State Government.
- (b) Fraudulent withdrawals by altering the amount shown in the vouchers;
- (c) Purchases in excess of financial powers;
- (d) Presentation of duplicate claims.

(CAG's letter No. 951/Admn.215-49 dated 19-5-1949).

(ii) During the check of cash book for the months selected for audit, where these months are April or later months the local audit parties should check whether relevant payees' receipts have been received and properly kept by the Drawing Officer in respect of payments from 1st April. During local audit, if the departmental officer states that any payee's receipt has been forwarded to the PAG/AG, a certificate of payment should be obtained from the Drawing and Disbursing Officer, verified with the local records and attached to the concerned audit enquiry and reply, after acceptance by the supervising Sr. Audit Officer/AAO of the party. In cases where the officer supervising the party considers that it may be desirable to check the Payee's receipts stated to have been forwarded by the departmental officer to the office of the Accountant General (A & E), a special note for this purpose should be sent along with the draft inspection report. The Section dealing with the draft inspection report should in such cases, get the relevant payee's receipts verified by the concerned Central Audit Party.

(CAG's Office Letter No. 620-Audit.II/172-83 Cir.No. 15-Aud.II/1985 dated 14-5-1985)

4.09. Audit of Abstract Contingent Bills

The following instructions based on CAG's guidelines regarding local audit of Abstract Contingent bills should be followed by the Local Audit Parties:

(i) Sub-vouchers below ₹1000/- kept in local offices should be put to normal audit checks to see whether

- a) The amount drawn was required for immediate utilisation.
- b) The amount was adjusted within the stipulated period of 90 days from the date of drawl.
- c) The vouchers were chronologically and systematically maintained to prevent double drawl.

(ii) The field officers draw advance from Treasuries on Regular Contingent Bill form instead of in Abstract Contingent Bill form just to avoid submission of detailed contingent bills. The loophole should be checked in audit and commented in the Inspection report.

(iii) The OAD parties should ensure that in respect of all abstract contingent bills, the drawing and disbursing officer prepared detailed contingent bills in time and presented them in treasuries or sent them to the Account General (A&E) directly. Non-adjustment of Abstract Contingent bill should be commented in the inspection reports. (CAG's circular No. 12 of 1999 No. 946-Rep(s) 127-98 dated 29-9-1999).

4.10. Audit of Contingent Register

The entries in the contingent register should be checked to ensure the propriety of the expenditure with reference to the rules. It should be seen that:

- a) The register is maintained in the prescribed form;
- b) Each entry is initialled by the drawing officer;
- c) They are correctly entered in the columns which show as heading the classification under which the expenditure falls;
- d) The total of the sub-vouchers agrees with the total of the contingent bills drawn;
- e) The details of stores and other articles purchased, as shown in the entries in this register, for which no sub-vouchers are available, agree with those in the stock books or other registers or records maintained in the office;
- f) The register is closed regularly indicating the progressive expenditure and the allotment of funds available for expenditure in future
- g) The total of the bills drawn in the Contingent Register are also checked.
- h) The relevant rules of GFR & Gujarat Treasury Rules had been properly observed.

4.11. Audit of Travelling Allowance Bills:

The check exercised by Controlling Officers in TA Bills has to be audited by occasional test check and for this purpose audit should check a few specimen cases at the time of local audit of Government Offices, to ensure that the duties assigned to the Controlling Officers are properly exercised by them. Cases that may come to notice in which the Controlling Officers did not discharge their responsibilities in this regard should be brought specially to their notice.

The test-check of TA bills should be conducted during Local Audit to see whether: -

- (a) a register of TA bills is maintained by all controlling officers to guard against double claims;
- (b) the distances of road journeys are scrutinised by the controlling officer;
- (c) the documents on the basis of which scrutiny is made is an authenticated one;
- (d) stations which could conveniently be visited in a continuous circuit were visited on different occasions necessitating more than one journey from headquarters and
- (e) any other feature exists which would vitiate the responsibilities entrusted to the controlling officers;

The results of this test-check and cases in which controlling officers did not discharge the responsibilities entrusted to them should be incorporated in the Inspection Report of the office concerned.

(O.O. No. OAD/Control/Civil/A dated: 1.5.1964)

(Please also see Para 3.2.15 of MSO (Audit) Second Edition-2002)

4.12. Audit of vouchers relating to Over Time Allowance (OTA):

The function of nominal audit of establishment vouchers entrusted with the Central Audit has been transferred to Local Audit, considering the fact that effective audit of O.T.A. bills is possible only in local audit. It should also be scrutinised to check the admissibility of overtime, correctness of payment, sanction of competent authority, furnishing of prescribed certificates etc.

(CAG's Office Letter No. 1142/TA I/140-82 dated 14-9-1982).

4.13 Audit of scholarship vouchers:

The parties are to select scholarship vouchers pertaining to a particular month and scrutinise them in details, even though payments might have taken place in different months, to ensure the existence of a proper system to safeguard against double payments and to see that acquaintances are received in all cases and filed.

(CAG's office Letter No. 540.TA. I/45/82 dtd. 24/4/82).

4.14. Check of permanent advance:

Para 3.13.13 of MSO(Audit) Second Edition-2002 requires that permanent advances held by local offices should be checked occasionally in order to see that the amounts held by the various disbursing officers, are not in excess of their normal monthly requirements. The inspecting parties should therefore, verify the actual requirements of each office inspected and a report is to be sent to the Debt Head Section of the Office of the Accountant General (A & E).

It should be seen that:

- (a) Permanent advance has been sanctioned and authorised by competent authority;
- (b) the balance held as permanent advance did not exceed the sanctioned limit at any time;
- (c) the recoupment of permanent advance has been entered in the sanctioned limit at receipts side;
- (d) there is a valid voucher in respect of each payment;
- (e) the daily totals of receipts/payment are carried forward to the cash book and;
- (f) a certificate evidencing the holding of permanent advance has been furnished at the close of each financial year.

4.15. Treasury Bill Book:

It should be seen that:

- a) All bills drawn and presented are entered in the register;
- b) Entries have been attested by the Head of the Office inspected,
- c) The date and amount of payment have been attested by the Treasury Officer;
- d) There are no erasures, over-writings, etc. in the registers;
- e) The cash received has been taken correctly to the cash book;
- f) The Register has been page numbered and a certificate of count of pages recorded over the signature of the Drawing Officer on the covering page of the Treasury Bill Book.

- g) The bill register is maintained in the prescribed form;
- h) The bills do not remain unencashed for a considerable time.

4.16. Stamp Account:

It should be seen that:

- (a) The account has been maintained properly bringing into account all receipts and issues;
- (b) The physical balance has been verified periodically and agreed with the book balance;
- (c) The postage stamps have been issued for official purpose only; and
- (d) The expenditure on telegram is not excessive.

4.17. Register of Stationery, Register of Uniforms, Register of Books and Periodicals etc

- (a) the purchases as seen from the vouchers have been entered in the relevant register;
- (b) the issues are not in excess of authorised scales;
- (c) the acknowledgements of the recipients are available for the issues and
- (d) physical verification of stock on hand is conducted annually.

4.18. Cash Accounts:

- (i) The arrangements for the withdrawal of cash from treasury and/ or its realisation from other sources, its custody, payment and accounting should be examined to see that they are in conformity with the prescribed rules.
- (ii) The cash books should be examined to see that:
 - (a) All entries relating to the months(s) selected for detailed check regarding receipt of cash as shown in the counterfoils of receipt books as well as cash received from the treasury on bills, cheques, cash orders, or Reserve Bank drafts are traceable under proper dates and with correct particulars;
 - (b) Cash which should be remitted into the treasury are remitted without delay and the remittances supported by the challan are acknowledged by the treasury officer, or the bank or by the treasury pass book. It should be seen that all entries in the treasury pass book have been initialled by the Treasury Officer;
 - (c) All payments are supported by proper vouchers, acquaintance rolls etc. which are complete in all respects;
 - (d) The totals are correct and the balance correctly worked out;
 - (e) Private cash is not mixed with the cash balance of Government;
 - (f) The cash book is closed and balanced on the prescribed dates;
 - (g) There are no erasures or interpolations and errors are rectified properly;
 - (h) There is no tendency to keep an unduly large cash balance in hand and the cash in hand with the Cashier and others does not exceed the amount of security taken from them;
 - (i) There is evidence in the cash book of the verification of all entries made therein regarding receipts, payments and balances, and the balance of cash in chest has been counted at least once a month and duly certified by the head of the office concerned;

- (j) The expenditure shown in the permanent advance column, justifies the full amount of the permanent advance;
- (k) Expenditure has not been incurred in excess of the permanent advance by spending from the departmental receipts, except when specifically authorised;
- (l) the cash balance is subjected to surprise checks at irregular intervals.

Note: Accounts of imprest and temporary advances if any should be examined to see that they are closed punctually every month and that they are properly examined by the recouping officers before recoupment.

(iii) It is one of the important duties of audit to see that all departmental revenue have been remitted in time to the treasury to the credit of Government. With a view to ensuring that all the remittances to the treasury have gone to the credit of Government the audit staff should verify the credit entries in treasury records. In this connection, the instructions contained in Para 23 of the Secret Memorandum of Instructions may also be borne in mind.

NOTE :

The verification with treasury records should be conducted even if the treasury is located beyond 8 Kms. from the place of inspection. Details of journey, if any, undertaken for the purpose should be reported to APM/OAD-III/AMG-III Section for regulating TA claim.

(iv) Where important initial records such as cash books, pass books security registers, etc. are not maintained properly, it will not be sufficient to state in the inspection report that such records are not maintained properly. Improper maintenance or non-maintenance of important initial records having a direct bearing on cash transactions will prima facie indicate irregularities in cash transactions. In such cases the Sr. Audit Officer, besides mentioning the technical defects and shortcomings noticed in keeping accounts, registers etc. should also make an intelligent probe to see if the defective maintenance or non-maintenance of accounts, registers and other initial records is a cover for any fraud or misappropriation.

(v) The cash book should be checked up-to-date.

While doing this, the Inspecting Officer should try to get all the facts and explanations on the spot. If satisfactory explanation for any irregularity detected is not forthcoming, he should collect all the relevant facts and make a special report for pursuing the point with higher authorities.

(vi) Objection, if any, taken on checking of Cash Account should be explained in sufficient details to enable the Central Office to find out whether the defects mentioned disclose any technical defect or serious irregularity. Audit parties should examine specially the adequacy of the procedure followed by various authorities for the receipt, custody and disposal of cash and other valuables, and defects, if any in this regard, should be commented upon in the report.

(vii) All irregularities relating to the accounting of cash whether technical or material should be mentioned invariably in Part II of the Inspection Report.

(viii) In cases where the cash book is maintained properly and the rules observed correctly, the Supervising Officer/AAO of the OAD Party should mention the fact specifically in the letter forwarding the inspection report.

4.19 Cash verification:

(i) The supervising officer or when the party is unsupervised, the AAO should ensure that physical verification of cash as per the records is done by the Drawing and Disbursing Officer in his presence and include comments, if any, arising from such verification in the Inspection Report which should comprise the following:

- (a) The opening cash balance as on date;
- (b) Cash receipts / disbursements during the day till the time of verification;
- (c) Closing cash balance;
- (d) Actual cash balance found on physical verification;
- (e) An analysis of the difference between the cash balance and the balance found on physical verification indicating whether the difference was due to
 - Misappropriation i.e. unexplained shortage of cash
 - Unadjusted advances given from un-disbursed cash or
 - Unadjusted voucher specifying disbursements on account of item for which there are no allotment or sanction.
- (f) Cases of retention of heavy cash balances.

(Annexure to Para 6.1.7 of M.S.O. Audit) Second Edition. 2002.

It should be seen in audit that the Government Safe contains nothing but Government money and other Government Valuables.

(ii) Whenever cash is verified it should be seen that the cash book is written upto date and all entries should be vouched to the date of verification. The composition of the balance in hand so verified, i.e. cheques, notes, coins, etc. should be recorded in the verification report also.

(iii) If the cash balance pertaining to the cash book is counted, it is desirable to have simultaneous count of all cash balances in the same office, with relevant accounts in charge of the disbursing officer or other custodian of the cash chest. This verification of cash should preferably be done at a time when the officer-in-charge is present.

(iv) The above instructions apply also to surprise inspection of cash undertaken when temporary misappropriation is suspected

(vide CAG's D.O.No. 70/Admn. I/54 dated 26-7-1974).

4.20 Accounts of works

It should be seen that: -

- a) estimates are prepared and sanctioned by competent authority prescribed in the rules;
- b) the rates of the sanctioned estimates do not exceed those allowed in the neighbouring public works divisions;
- c) rates paid are in accordance with contracts, in cases where they are not covered by contracts, they do not exceed the market or schedule rates;

- d) where through rates for finished work are allowed to contractors, the value of any material, carriage etc., and incidental charges are not charged to Government but recovered from contractors;
 - e) no financial aid is given to a contractor beyond that agreed upon in the contract;
 - f) in cases where contractors are allowed labour rates only or work is carried out by daily labour, arrangements exist for exercising detailed control over transactions relating to materials and for verifying the unused materials;
 - g) the materials received from dismantling old structures, etc., are properly accounted for and are disposed of to the best interest of Government;
 - h) there is no undue delay in closing the accounts of works;
 - i) the excess over sanctioned estimate are investigated and sanctioned by competent authority and
 - j) where materials for the work are supplied by Government, to the contractor, the prices of the materials are fixed correctly as per rules and adjusted against the contractor.
- While auditing the offices which maintain accounts on the public works accounting system, it should be seen that the provisions contained in the C.P.W.D. Code and the G.P.W.D. Manual are observed. The checks to be exercised on the two initial records for works accounts, the measurement book and the muster rolls, have been enumerated in the succeeding paragraphs. For scrutiny of other works records, the Manual of the Works Audit Department should be consulted.

4.21. Measurement Book

It should be seen that:-

- a) the books are maintained in accordance with the prescribed rules;
- b) the arrangements in force for taking measurements and for the check of measurements by some officer superior to the official who had originally taken the measurements and the result to check measurements are not such as to indicate laxity of control;
- c) the pages containing detailed measurements paid for are scored out by a diagonal line in red ink and the abstract of measurements bears a reference to the number and date of vouchers of payment;
- d) the dates of measurements of any out station works are traceable in the travelling allowance bills of the official concerned (only a few cases need be test-checked to see to this point);
- e) in respect of running contract account, reference to the previous set of measurement is given;
- f) the contractor's acceptance is obtained below each set of measurements;
- g) the standard measurement books on the basis of which either estimates for annual repairs, etc., are prepared or payments are made should be examined to see that:
 - (i) they are duly certified as fully checked by some responsible officer and;
 - (ii) they are brought up-to-date from time to time and additions and alterations in the books are approved by a responsible officer.

Works Manual may also please be referred.

4.22. Muster Rolls

Muster rolls should be generally examined to see that the instructions prescribed for their maintenance are followed. In particular, it should be seen that:

- a) attendance is taken daily and the record of attendance is checked at intervals by responsible officers inspecting the works for which the labour is employed;
- b) disbursement are not entrusted as a rule to officials of low rank;
- c) where possible, the officer making the disbursement is not the same as the one controlling the labour;
- d) a record is kept of the progress of work done by labour and the cost of the work done is not in excess of the value at current rates indicating either loss to Government or need for closer financial control and
- e) labourers paid from muster rolls are not engaged in any work other than that for which they are detailed.

Works Manual may also please be referred.

4.23 Account records not specifically mentioned

All other account records not specifically mentioned in the preceding paragraphs or in the chapter dealing with the audit of accounts of the particular office or institution, should be examined to see: -

- a) that they are maintained in accordance with the prescribed rules and are up-to-date and
- b) that they are periodically reviewed by a responsible officer.

4.24 Intelligent exercise of checks

The efficiency of local audit depends largely on the intelligence, thoroughness and resourcefulness which are brought to bear on it. Even an apparently minor defect or irregularity might conceal a fraud or misappropriation. The inspecting staff should be alert to this and exercise the check intelligently and not in a mechanical way. An illustrative list of irregularities which are likely to conceal potential frauds is given below for guidance: -

- a) Erasures, overwriting, interpolations, alterations and unattested corrections in figures, pass orders etc., in account books and registers, bills, receipts, etc.;
- b) Removal of pages from account books and registers;
- c) Tampering with totals and carry forward of totals especially in cash books and stock books;
- d) Erroneous arithmetical totalling in bills;
- e) Errors in carrying over figures from subsidiary registers to main register;
- f) Delay in disbursement of moneys drawn from treasury to payees (including moneys recovered against court attachment, undisbursed salaries etc.);
- g) Non-availability of challans in support of remittance entries in cash books and tempering of figures in challans;
- h) Note: - Fictitious entries of remittances in cash book will be brought to light during the verification of credit for remittances for months selected direct from the books of the treasuries, prescribed by the Comptroller and Auditor General.

- i) Persistent delay in the submission of payees "Stamped receipts, suppliers' invoices and countersigned detailed bills to audit;
- j) Payments made on duplicate invoices, absence of proper reference to entry in stock books invoices, failure to cancel sub-vouchers or paid invoices;
- k) Issue in stock accounts not supported by proper initials and acknowledgements issues on free transfer bills not acknowledged by the recipients;
- l) Bills presented at the treasury without entry in the treasury bill book, interpolation and alteration of entries in the treasury bill books.
- m) Items stores, works etc paid for in bills not being traceable in the relevant registers, viz, stock account, works registers, measurement books, etc.;
- n) Signing office copies of bills in full, difference between the entries in the office copies and fair copies of bills in regard to name of payee, endorsee etc., or absence of office copies;
- o) Persistent failure to conduct physical verification of stores or to take action on the verification reports;
- p) Entries in important records like cash book, stock accounts, etc., not being attested;
- q) Absence of proper periodical scrutiny of cash book, stock books, contingent registers and D.C. bill registers by the head of the officer or the authorised gazetted Government servant;
- r) Non-reconciliation of departmental figures with those of the treasury.

4.25 Accounting of Non-Government Money:

Where under any special sanction, a Government Servant deals with both Government and non-Government money in his official capacity, it should be seen that the provisions of Gujarat Treasury Rules are observed.

4.26 Audit of Property Account:

Local audit parties should also bestow adequate attention on the audit of property accounts which include accounts of immovable properties like land, buildings and other assets with a view to safeguarding the financial interest of Government. Specific comments should be included in the inspection report regarding the maintenance of property accounts in respect of each Government institution audited by them.

(CAG's Confidential letter No. 83 Admn.I/152-61 dated 11-1-1962).

It should also be seen whether the permanent register prescribed by Government to show the assets of immovable properties and buildings in the custody of several departments is being maintained properly and is posted up-to-date.

They should also call for the connected records and examine them as indicated below;

- a) If a new property has been purchased, the purchase proceedings from inception to termination should be scrutinised to see that purchase has been made properly and in accordance with the rules etc., on the subject;
- b) It should be seen that lease agreements exist in all cases where properties have been leased under the rules;

- c) If any property is of a revenue-yielding nature, it should be seen whether the revenue has been properly assessed and prompt action has been taken to collect the assessed revenue. The records maintained for demand and collection of revenue should be carefully examined;
- d) In respect of various assets, it should be seen that capital value is brought up-to-date (e.g. by charging, where necessary, appropriate amounts of depreciation etc.) and the return, if any, is calculated properly.

Note: - It will not ordinarily be necessary to comment on the cost of current repairs as compared to the original cost of construction or purchase unless the magnitude of the cost of repairs, the life of the property and other relevant data indicate any abnormal feature warranting comment.

(Confidential O.O. No. TM/20(10) dated: 16.6.1962 and OAD-I/28 (33) 3464 dated: 9.10.1962).

4.27 Stores and Stock Accounts:

The audit of stores and stock accounts is a statutory responsibility of the Comptroller and Auditor General under Section 17 of the Act. As these accounts form part of the initial and subsidiary accounts, local audit parties should check them as part of their audit, of expenditure on purchase of stores, their sale, issue etc.

(1) The general principles and regulations in accordance with which audit of stores and stock accounts should be conducted, as laid down in paras 2.4.1 to 2.4.13 of MSO (Audit) Second Edition-2002, should be carefully borne in mind.

(2) Comptroller and Auditor General has decided that dead stock and office furniture should not be included in the Stock accounts furnished by the departments to audit for inclusion in the Audit Report.

(CAG's Letter No. 1637-Admn.II/1248-60 dated 7-9-1960).

(3) During the audit of stores accounts, it should be seen whether the departmental regulations governing purchase, receipts, issue, custody, condemnation, sales and stock taking of stores are well devised and duly implemented. Following checks may be done :

(i) The quantity accounts of the receipts, issues and balances as well as the value accounts (where they are maintained) should be examined with a view to ascertain that they tally in all respects, with the expenditure and other transactions concerned with the stores.

(ii).It should be seen whether there exists a satisfactory system of control of stock and stores in the form of departmental regulations for the purchase, receipt, custody, issue, sale and condemnation of stores and for periodical stock taking and that the system works without any grave defects.

(iii) The following points should be specially looked into in the audit of Stores/stock:

(a)Every article purchased or otherwise obtained for store is entered in the store account (this should be checked at the time of audit of contingent vouchers or the contingent register);

(b)The accounts are kept in the prescribed form;

- (c) that entries of receipts and issues are made in the accounts as and when the transactions actually occur, that issues are supported by proper authority for issue and by proper acknowledgements and that same official is held responsible for checking that this is done properly and for seeing that balances are worked out correctly;
- (d) that the accounts of balance which were audited in the previous inspection have been produced complete in all respects, that the entries in them have not been tampered with, that the closing balances as per previous accounts have been correctly carried forward to the accounts under scrutiny and that there exists a certificate of periodical check of balances;
- (e) that stores are periodically counted, weighed or otherwise examined by some responsible official, other than the custodian of stores wherever possible and verified with the balances in the stock books and that necessary action has been taken to adjust the surpluses or shortages noticed;
- (f) There is no unnecessary accumulation of stores and that the balance in hand does not exceed the maximum limit prescribed by competent authority and that it is not in excess of requirements for a reasonable period;
- (g) Adequate action has been taken for the disposal of surplus, obsolete and unserviceable stores;
- (h) where a periodical account is maintained, it should be seen that:
- (i) the issues are priced with reasonable accuracy and the rates initially fixed are reviewed from time to time and revised where necessary so as to bring them within the market rates;
- (iv) the value accounts tally with the accounts of works and of departments connected with stores transactions, the total of the value account agrees with the outstanding amount in the general accounts and the numerical balance of stock materials is reconcilable with the total of value balances in the accounts at the rates applicable to the various classes of stores; and
- (v) steps are taken for the adjustment of profits, or losses due to revaluation, stock-taking or other causes and these are not indicative of any serious non-observance of rules;
- (vi) The stock account of the various departments should be checked with reference to the above points and any general or special directions in the matter. The various irregularities noticed in the maintenance of stock account in different offices should be included as distinct comments in the Inspection Report/List of statement or minor objections which could not be settled on the spot. Details of the irregularities commented by the inspection parties should be kept office wise by the OAD (Hqrs.) in a Register in such a way that certain irregularities can be identified as pertaining to particular office at any time later on; material for the para on stores and stock to be included in the Audit Report should be furnished by OAD to AR section duly approved by Sr.DAG/DAG between 15th July and 15th August every year.

(AG/PA/115/115 dated 2-7-1963 O.O./28(8) dated 19-7-63).

(4) APM Section will obtain a list of departments which are required to maintain stock accounts from Government and will keep this list up-to-date. A copy of the list should be given to Report Section. OAD Sections should also keep a record of institutions which are required to keep accounts of stores and stock pertaining to the departments under their audit control. During the course of audit, if the Central Audit Sections come across other departments which maintain stores and stock of appreciable value they should bring it to the notice of Government in consultation with APM section for inclusion in the list of departments maintaining stores and stock and at the same time furnish the names of such departments to Report / OAD Sections.

(5) APM Section will arrange the local audit of stock accounts of the departments annually as soon as compiled stock accounts are received. The annual programme of audit of stock accounts should be so drawn up by APM that the reports on the results of audit together with the certified stock accounts are made available to Report Section by 30th September each year.

(6) As far as practicable the work relating to the audit of stores and stock of all the institutions selected for audit in one year should be entrusted to one or two audit parties under the supervision of one Sr. Audit Officer.

(7) APM Section will keep separate files for the stock account of each department included in the list. All general and special orders governing the maintenance of the respective stock accounts should be kept in these files and the files made available to the local audit parties for guidance. The accounts and audit report of the previous audit should also be made available to the audit party for reference at the time of audit.

(8) (a) The Supervising Officers and the AAO engaged in the local audit of the accounts of stores and stock should make themselves conversant with the relevant rules and instructions before taking up the audit.

(b) Whether conversion of money to materials has been done merely to prevent surrender of the grants.

(c) Whether the inventories in different departments are commensurate with their normal requirements. Specific cases of inventories where the balances are much higher than the normal consumption may be examined to find out the reasons for the flabbiness of the inventory; and

(d) Particular purchase decisions should be examined to see whether purchases were justified keeping in view the then existing stock and the future trend of consumption.

If necessary, one or two major stores holding departments may be taken up each year for detailed analysis of their procedure and material management systems.

(CAG's Gen. Cir. No. 1204 - 84 (s) /76-82/11 dated 30-7-1982).

4.28 Register of undisbursed pay and allowances.

It should be seen that:-

a) The closing balances of cash on hand have been analysed bill-wise/individual-wise in the register.

b) The cash remaining undisbursed within three months of its drawal has been credited back to the treasury or has been adjusted by short drawals in the bills and;

c) The entries have been attested by the head of the office.

4.29 Register of Advances

It should be seen that: -

- a) The registers are maintained in the prescribed form.
- b) The advances have been sanctioned properly and;
- c) The recoveries of advances are effected regularly with interest.

4.30 Purchase of stores:

The accounts relating to acquisition of stores should be examined with a view to ensuring: -

- a) That a reasonable estimate has been prepared regarding the requirements for the year;
- b) That the annual indent has been prepared.
- c) That in the case of stores required for works, the purchases are in accordance with the works programme and if not, stocks are required to meet the requirements for a reasonable period only;
- d) That sufficient funds have been provided and the expenditure has been properly sanctioned;
- e) That purchases have been made by tender system duly observing price preferences;
- f) That the quotations/tender notices are in the prescribed form;
- g) That sufficient time is allowed to tenderers to submit their tenders;
- h) That a time has been fixed for firmness of offers;
- i) That purchase is made from the lowest tenderer (except in cases in which price preferences are applicable) and in cases where the lowest tenders are not accepted, valid reasons are recorded in writing.
- j) That the prescribed EMD has been collected unless exempted (In the case of running contracts collection of EMD is compulsory);
- k) That an agreement in proper form has been executed and security taken from the successful tenderer and that the agreement does not contain any unusual clauses detrimental to the interests of the State;
- l) That terms of supply have been fulfilled by the supplier in all respects;
- m) That the rates paid agree with those shown in the contracts/agreements;
- n) That certificates of quality and quantity are furnished by the government servants who receive the stores before payment is made;
- o) That purchase orders have not been split up in order to avoid sanction of higher competent authorities;
- p) That in the case of articles which are covered by rate contracts, the purchases are effected at the rates so fixed, without calling for competitive tenders/quotations;
- q) That the goods are insured against risk during transit if necessary and that losses if any, during transit are taken up and settled with the insurance agencies promptly;
- r) That all articles received and paid for are taken into the appropriate stock register and acknowledged as such by the officer in charge of the stores
- s) Check by audit of Goods and Services Tax (GST) paid on Government Purchases: GST is a tax on sales and not on purchases. There is nothing in the law to make it

necessarily payable by the purchaser. In respect of payments under contracts, local audit should therefore see (a) that the GST is paid by Government, only when it is payable and that (b) in cases where GST is paid by Government on its purchase, the relevant contract of purchase includes a specific provision for the payment of GST and (c) in such cases even with the tax, the purchase is made on terms most favourable to Government comparing the price paid by Government including the GST with other quotations.

(CAG's Endt. No. 2434 Admn.I/628-54 dated 18-12-1954 and letter No. 1280.Admn. I/628-54 dated 28-6-1955).

4.31. Custody and issue/disposal of stores:

It should be examined:

- (i) Whether the permissible limit for the value of stock in hand has been exceeded at any time without justifiable reasons;
- (ii) Whether the departmental regulations provide adequate arrangements for the safe custody and controlled issue of stores;
- (iii) Whether all issues are supported by indents, issue notes and goods received notes and the issues are properly recorded in the appropriate stock register.
- (iv) Whether the issue to sub-stores from stock are properly accounted for at the receiving end and the issues and receipts are reconciled by the issuing and receiving authorities periodically both in quantity and in value;
- (v) Whether the sale of stores (if permitted under the Rules) is made only by authorised persons and the sale price fixed by competent authority, includes a percentage to cover the overhead charges, including cost of departmental supervision, etc.;
- (vi) Whether the issues of articles for direct consumption on works or manufacture are regulated in accordance with the scales prescribed by competent authority;
- (vii) Whether periodical inspection of the stores has been conducted at the prescribed intervals and the report on unserviceable, perishable and surplus stores submitted to the appropriate authorities and action taken to dispose of such stores wherever necessary;
- (viii) Whether the physical verification of stores has been conducted by the head of office or a gazetted subordinate other than the officer- in-charge of the items at least once a year and discrepancies / shortage investigated.
- (ix) Whether amounts shown against depreciation, shortages, etc. when written off, give a break-up of the figures as under:
 - (a) Depreciation
 - (b) Shortages
 - (c) Losses and indicate:
 - The period to which the shortages or losses relate;
 - The action taken to get the shortages and losses regularised after due investigation. It should be seen in audit that the action is adequate and that the value of articles is not removed from the stock account without the sanction of competent authority for the write off.

- (x) Whether timely action is taken for providing adequate funds to meet possible increase in the price of materials, so that expenditure does not exceed budget provision.

4.32 Consolidated Stock Account:

The main check consists in seeing that the consolidated stores and stock account has been prepared by each Head of Department correctly with reference to the returns received from the subordinate offices and that there is no omission to include the stores relating to any office or institution in the department. It should also be seen that:

- (i) The consolidated account has been prepared in the prescribed form and is signed by the officer in charge as well as the Accountant or other subordinate who prepared the account;
- (ii) The opening balance agrees with the closing balance of the previous year;
- (iii) The amount, if any written off is supported by the write off orders;
- (iv) The arithmetical calculations are correct;
- (v) The quantities issued from the Central office are taken correctly in the books of the subordinate offices and vice versa;
- (vi) The certificates and explanations on the following points are furnished by the department keeping the stock account:
 - (a) Whether the figures represent a true and correct statement of affairs;
 - (b) Whether the figures represent a substantially verified stock and if so by what agency;
 - (c) Whether action has been taken for write off of stores which have been lost/unserviceable;
 - (d) Whether the closing stock is in excess of requirement;
 - (e) Whether there is abnormal variation in the closing stock or the amount written off as compared with previous year and if so the reason for such variation;
 - (f) Whether the accounts indicate purchase in excess of requirement and if so the reasons for such purchase;
- (vii) That unnecessary boosting up of stock account is avoided in the departments having a Central Store where the stores are initially acquired and distributed to sub-stores or subordinate institutions. In such cases it is usually noticed that the same article is accounted twice or thrice as receipt and issue depending on the number of institutions it passes through.
- (viii) Where a priced account is maintained, it should be seen that
 - (a) The issues are priced with reasonable accuracy and the rates initially fixed are reviewed from time to time and revised when necessary so as to bring them within the market rates;
 - (b) The value accounts tally with the accounts of works and of departments connected with stores transactions, the total of the value accounts agrees with the outstanding amount in the general accounts and the numerical balance of stock materials is reconcilable with the total of value balances in the accounts at the rates applicable to the various classes of stores, and
 - (c) Steps are taken for the adjustment of profit or loss due to revaluation, stock taking or other causes and these are not indicative of any serious non-observance of rules.

(ix) Depreciation is shown as an item in the Stores Accounts only when there is a definite policy of writing down stores value by such means. Where there is no such policy only actual write off of stores or losses on revaluation should be shown. This principle will apply both to commercial and non-commercial departments and undertakings.

In addition to the above points to be seen during local audit, the correctness of the explanation and certificates furnished by the department should also be examined and commented upon.

4.33 Local Audit of accounts of stores received under various Foreign-aid Programme

Large quantities of material and equipment are received by many Government departments/office for selected scheme and works under Technical Co-operation Agreements (now I.D.) programme, Colombo plan, etc. Besides the above aid, materials and equipments are also received as gift from other foreign Government/agencies: Ford Foundation, Rock Feller Foundation, United Nations and their specialised agencies, West Germany, Japan, Netherlands, Sweden, etc. The accounts of these articles are to be kept in proforma attached to Government of Gujarat, Finance Department Circular No.ACC-1062-1573-A dated 27-4-1962 (see *Annexure-I* to this chapter). It should be ensured during local audit that these accounts are checked in all offices where they are required to be kept. Non-maintenance or defective maintenance of the accounts should be commented on in the Inspection Reports.

(O/o. No.OAD I/17/28(14)/2276 dated 17.8.62 and No.OAD /Control/Civil/8 dated 12.3.55)

4.34 Audit of contracts and agreements:

It should be examined:

- i) The contracts, agreements, purchase bills, purchase files etc. should be carefully scrutinised in local audit. The items of contracts and agreements entered into by the offices to be inspected should be obtained from the OAD (HQrs). These items should be checked with the list maintained by the office inspected to see that there are no omissions. Special points if any, noticed in Central Audit to be looked into at the time of local audit, will also be communicated to the OAD Parties by OAD (HQrs).
- ii) The general instructions for the audit and agreements are contained in paragraphs 3.7.1 to 3.7.22 of MSO (Audit) Second Edition-2002. The supplementary instructions given by the CAG for general guidance in local audit are given in *Appendix-III*. These instructions should be adopted to suit the requirements of audit of particular cases or types of contracts, in the light of departmental rules and regulations.
- iii) Local audit should be conducted in respect of all contracts and agreements of value above ₹5 lakh, all rate and running contracts and 20 per cent of other contracts. The audit of contracts should be conducted under the supervision of Sr. Audit Officer.
- iv) Under Section 194C of the Income Tax Act, 1961, any person responsible for paying any sum to any resident contractor is required to deduct income tax at source at 2 per cent from any sum credited or paid in pursuance of any contract for carrying out any

work, including supply of labour for carrying out any work entered into between the contractor and

- (a) The Central Government or any State Govt. or
- (b) Any local authority or
- (c) Any corporation established by or under a Central, State or Provincial Act, or
- (d) Any company or
- (e) Any co-operative society,

If the consideration for the contract is not less than ₹30,000/- (with effect from 1-7-2010)

In order to enforce this provision, Section 37(7) of the Income Tax Rules, 1962 stipulates that the person making deduction of tax in accordance with Section 194C from payment made to any contractor shall send to the Income Tax Officer concerned an Annual statement by the end of June immediately following the previous year in Form 26.C in respect of deductions made by him during the immediately preceding quarter.

OAD Parties should ensure that the quarterly return is forwarded regularly to the Income Tax Officer on due dates. Omissions if any, noticed in local audit have to be incorporated in the inspection report and extract of such para should be forwarded to ITRA wing of office of the Principal Director of Audit (Central), Ahmedabad

v) The inspecting staff should see particularly that tenders have been invited in case of purchase of articles and stores for which tenders are to be called for as prescribed by specific orders of Government or under instructions contained in the manual of the offices inspected. They should examine the original of tenders and the agreements finally accepted. Cases of alteration of figures, over writings and other unauthorised corrections of tendered rates or other errors in the original tenders should be investigated in detail. The inspecting staff will also see that the rules laid down by Government or set out in the Manuals in regard to invitation and acceptance of tenders and for entering into agreements with contractors have been observed. The inspecting staff should also see that wherever necessary, the indenting officers have consulted the Stores Purchase Department at various stages before finalising the purchases.

vi) The files for contract agreements should be scrutinised to see that

- (a) Tenders are invited in the most open and public manner;
- (b) Contracts are executed either on standard forms or on special forms prepared in consultation with the law officers of Government and the terms are precise and definite and there is no room for ambiguity or misconstruction.
- (c) Contracts are sanctioned by the competent authority and the terms once entered into are not varied without special and proper sanction;
- (d) Agreements generally provide that payment will not be made until the stores have been received and examined; and
- (e) Suitable security has been taken from the contractor for ensuring the fulfilment of contract.

vii) In cases where a formal contract is not entered into, it should be seen that the order for supplies or for execution of works is not given without at least a written understanding about the price or the rate at which payment is to be made.

viii) When a number of cases are noticed in which the lowest tender has not been accepted and audit considers that the accepting officer has exercised his discretion improperly (for which view definite reasons should be given), the percentage of such cases with a bearing on the total number of cases investigated by audit and the extra cost caused to Government resulting from this should be indicated. Where a test audit has been conducted, it must always be made clear in the report that this percentage is the result of test audit and the rough proportion of the cases selected for audit to the whole should also be stated.

ix) It will also be necessary to ascertain whether the ratio of cases of non-acceptance of lowest tender to the total number of cases examined points to the conclusion that they are merely individual lapses or are indication of a general tendency. The result of such investigation should also be included in the Inspection Report.

4.35 Security Deposits:

It should be seen that:

- (a) Security is taken as required under rules from persons entrusted with the custody of cash or stores;
- (b) Security deposits are covered by a proper bond or agreement setting forth the conditions under which the security is held;
- (c) Government bonds tendered as security are taken at their face value or market value whichever is less at the time of depositing the security and re-adjustment is made if there is a subsequent appreciation or depreciation in the value, as prescribed by rules;
- (d) The register of receipts and disposal of securities is properly maintained and all entries since the previous audit are correct and acknowledgements of the depositors exist for the return of securities;
- (e) The register as well as the securities are examined at least once a year by a responsible officer of the department.
- (f) Either the securities or the acknowledgements of their authorised custodians (vide Government Securities Manual) are produced for inspection;
- (g) In the case of Post Office/ Treasury Savings Bank Pass Books, they are hypothecated to the head of the office and kept in his custody.

4.36 Acquaintance Rolls of establishments

These should be examined to see that there is a proper acquaintance for each amount disbursed, the amounts have been disbursed to the persons entitled to receive them and that the arrangements for keeping a proper watch over un-disbursed amounts are satisfactory. It should also be verified whether the checks prescribed in Gujarat Treasury Rules are being exercised by the head of office.

4.37 Check of log books, etc. relating to Government vehicles including staff cars and station wagons.

i) A list of staff cars, lorries, jeeps, etc. in use in the office inspected should be called for and it should be ascertained whether suitable rules and regulations regarding their use have been framed and got approved by Government. It should also be examined whether

these rules and regulations are adequate and are being observed in actual practice. The log books and other connected records should be scrutinised to see that:

- (a) They are maintained in accordance with the rules prescribed.
 - (b) Effective control is exercised over the use of the vehicles and the consumption of petrol/diesel.
 - (c) The vehicles are used only under proper sanction and for authorised purposes;
 - (d) Recoveries are correctly and promptly affected in cases where the vehicles are used for non-official purposes.
 - (e) Entries regarding the distance between the places travelled are correct; and
 - (f) The entries in the log book agree with tour diaries, if any, submitted by the officer.
 - (g) The average mileage have been worked out and the average run is reasonable.
- ii) The history sheet of vehicles is to be scrutinised to see that: -
- (a) it is maintained in the proper form;
 - (b) All the repairs/additions have been noted therein and
 - (c) The maintenance of the vehicles is economical.

4.38 Assessment and collection of rent of Government quarters.

The following details in respect of gazetted as well as non-gazetted employees should be verified in local audit to see: -

- (a) Whether rent free quarters are being occupied by ineligible personnel;
- (b) Whether two months' deposit of standard rent is collected (in case of deposit of family quarters of Police personnel).
- (c) Whether penal rent is realized in the case of unauthorised occupants.
- (d) Whether register of allottees with details of allotment, date of occupation / vacation, rent collected, list of furniture, fittings etc. are properly maintained.

4.39 Audit of Non-tax Receipts:

The various departmental receipts are subjected to audit along with the audit of expenditure of the departments. In order to make audit of departmental receipts effective, such receipts should be subjected to detailed checks which are similar to those exercised in the audit of tax receipts. Paras relating to non-tax receipts should be included in the Inspection Report under a separate part.

NOTE:- Non-tax receipts relating to departments, the audit of which has not been taken up by Revenue Audit wing should be audited by other wings and subjected to scrutiny as prescribed in chapter 3 of M.S.O(Audit)Second Edition-2002. The extent of checks exercised should be specified in a special note.

4.40 Advance of pay, TA on tour and transfer:

Since the watching of adjustments of advance of pay and leave salary, TA on tour and transfer, advances in connection with leave travel concession etc. in Central Audit has been dispensed with, efficiency of the system and procedure for recovery of those advance in the departmental offices should be examined during local audit. The party should trace all debits and credits related to the selected month from the original vouchers or the office copies of the vouchers to the registers maintained in the office

inspected. A few credits (recoveries of advances) appearing in the registers should be traced to the office copies of original vouchers.

4.41. Group Insurance Scheme:

Local audit parties should check the transactions relating to Group Insurance Scheme, 1984 at the time of local audit of the institutions on the following lines.

1. Verify the office copies of the schedules attached to the pay bills in respect of the selected months with reference to the pay bills for that month.
2. Check the nomination pasted in the service books at the time of verifying the service books.
3. Check whether the details of the Group, and the date of commencement of subscription etc., are noted promptly in the last pay certificate of the subscriber when he/she is transferred.
4. Verify whether the payments from the funds are covered by proper sanctions of the Directorate and the accounts shown in the bills are correct and whether the amounts are properly disbursed to the parties concerned.

All Assistant Audit Officers and Sr. Audit Officers, if supervision is provided, should attach a separate report after checking the transactions relating to Group Insurance Scheme, 1984, along with the Draft Inspection Report. A nil report should be forwarded if there is no discrepancy/irregularity in the accounting procedure of transactions relating to the schemes.

4.42. Proforma Accounts:

i). The watching of receipt, audit and certification of proforma accounts is entrusted to CA(HQrs) in respect of institutions/schemes which are declared commercial and to OAD (HQrs) in respect of others. As soon as a copy of the Government order requiring a Government department to maintain proforma accounts in respect of a scheme is received, the sections concerned should furnish a copy of it to OAD (HQrs) section. OAD (HQrs) section should enter the fact in the Programme Register and at the time of drawing up the annual list of local audit to be undertaken, such items should be included as annual items with a specific note that the proforma accounts are also to be audited. The audit of proforma accounts should not be postponed on the ground of non-receipt of accounts in time.

As per Section 13 (c) of CAG's (DPC) Act, 1971, it is obligatory on the part of the CAG to audit all trading, manufacturing, profit and loss accounts, balance sheet and other subsidiary accounts kept in any department of the Union or a State and in each case to report on the expenditure transactions or accounts so audited by him. In order to comply with this requirement, it is necessary for Audit to ascertain from Government the exact nature and scope of the activities of any department with a view to determining whether it is essential or advisable to maintain suitable subsidiary and proforma accounts where Government have not suo-motu decided to maintain such accounts. The question of dispensing with such commercial accounts will arise only when the nature of activities

change from 'commercial' to 'service'. Even in such cases a self-contained account of receipt and expenditure and in some cases a simple cost account should be maintained to indicate the financial results of the undertaking to facilitate better financial control. Government have accepted this requirement.

In view of the provision contained in MSO (Audit) the OAD sections should review the budget documents/ relevant sanctions issued by the State Government and take action, wherever necessary, to ascertain from Government the nature of the activity i.e. whether 'commercial' or service activity and take up with the State Government the question of maintenance of proforma accounts in the case of activities declared as commercial and at least a simple self-contained account of receipts and expenditure or a simple cost account in the case of trading / manufacturing operations treated as service activity. The audit of self-contained account of receipts and expenditure/ cost account is also to be arranged by APM.

ii) During the audit of subsidiary accounts of Government Commercial and quasi-commercial departments, undertakings etc. kept on proforma basis outside the general accounts of Government, it should be seen that:

- (a) The figures appearing in the proforma accounts tally with the figures booked in the office of the A.G.(A&E) under various heads.
- (b) The proforma accounts present full and true picture of the financial result of the transactions of the undertakings, schemes in terms of commercial ideas of liabilities and assets, debits and credits, profit and loss.
- (c) The allocation of expenditure between the capital and revenue is correct, the valuation of assets is on a reasonable basis and there is provision for depreciation and bad debts. At the same time it is not necessary that every practice of commercial audit should be applied meticulously.

The above instruction applies mutatis mutandis to the audit of self-contained accounts of receipts and expenditure and cost account.

4.43. Audit of centrally assisted / sponsored schemes.

Local audit parties visiting offices for routine expenditure audit are to audit the accounts of the centrally assisted/sponsored schemes. For this purpose, the local audit party must ascertain from the office visited whether any centrally assisted scheme is implemented by that office. A separate report should be sent to AM (Cell) Section, Office of the Pr. Accountant General (Audit-I), by all the local audit parties in the form given below. If no such schemes are implemented by the office visited by the Audit party, a nil report should invariably be sent to AM(Cell) Section.

Form of Report

50% / 100% centrally sponsored schemes.

1. Office/Department visited:
2. Party who conducted audit:
3. Period covered during the audit:

4. Nomenclature of the scheme:
5. Whether statement of annual expenditure of the scheme is obtained and forwarded duly checked with relevant documents:
6. Audit observation/objections:

Signature of Sr. AO/AAO

The instructions contained in the M.S.O. (Audit) Para no.3.16.17 to 3.16.21 and the Departmental Manuals should be kept in view while auditing the expenditure met out of Central Assistance. The following instructions may particularly be kept in view while examining the utilisation of assistance at the time of local audit/inspection.

- (i) The amount of assistance obtained by the State Government is not more than the amount actually spent by the State Government;
- (ii) The expenditure has not been inflated by fictitious adjustment by drawing A.C. bills of heavy amounts, the detailed accounts of which not rendered in reasonable time or in any other manner;
- (iii) Any general and special conditions attached to the sanction have not been deleted and funds utilised for other purpose;
- (iv) If a copy of the scheme, has not been received from the Headquarters same should be obtained and the expenditure incurred by the department may be checked keeping in view the details of the scheme;
- (v) the audit of expenditure incurred through local bodies and autonomous institution should be conducted on the basis of the utilisation certificates. All cases where the execution of schemes by the local bodies etc., has been unduly delayed beyond the time limit specified for this purpose by the State Government, should be commented in the inspection report for taking up the matter with the Government by FAA Section concerned.

4.44. Audit of deposit repayment vouchers.

The items of work relating to deposit transactions were transferred from central audit to local audit. The field parties should check the vouchers of deposit repayment pertaining to the selected months and forward with the inspection reports of offices, a special report giving the number of vouchers audited.

Supervising Officer or in his absence, the senior Asst. Audit Officer should ensure that the special report is sent to OAD (HQrs).

4.45. Audit of Personal Ledger Accounts

The object of local audit of the personal ledger accounts is to ensure that the initial accounts of the moneys are properly maintained, that the persons operating on the accounts do not delay remittances in to the accounts, of moneys received by them in connection therewith and that they do not make withdrawals or divert the funds temporarily for purposes not connected with the accounts. The object of audit is to safeguard the possibility of fraud or embezzlement of moneys lodged there in.

4.46. Audit of Detailed Contingent Bills

It has been decided that check of D.C. bills and payees receipts, which was hitherto done in central audit should be conducted in local audit.

While D.C. bills in the present form should continue to be sent to the Accountant General in proof of adjustment of amount drawn on abstract contingent bills, sub vouchers need not be sent to the office of the Accountant General (A&E); they may be retained by the Drawing & Disbursing Officers. The local audit party should conduct test check of the supporting vouchers at the time of local audit. For this purpose, D.C. bills received in any two months in a year may be selected for audit by the PAG/AG (Audit-I) and the voucher bundles may be obtained from the A.G. (A&E) and supplied to the local audit party for check during audit of the Drawing and Disbursing Officer concerned.

4.47. Audit of Payees Receipt

The audit is required to satisfy itself that the amount drawn out of the State exchequer has been paid to the correct payee and the payee's receipt as a proof of payment is available with the person who has made payment. This should be verified during local audit. At the time of checking the cash, local audit parties should also check that the relevant stamped receipts have been properly retained by the Department.

(CAG's No. 15/Audit-UU/1985 dated: 14.5.1985 OAD -I/Misc.).

4.48. Dealing with Fraud and Corruption

Fraud and corruption have increasingly become important concerns for countries around the world. In the broadest of the terms, fraud can be defined as a deliberate misrepresentation of facts and significant information to obtain undue or illegal financial advantage, and corruption can be termed as an effort to influence or abuse public authority through the giving or the acceptance of inducement or illegal reward for undue personal or private advantage.

Bribery, falsifying a material fact, embezzlement, collusive bidding, price fixing or bid-rigging, over or under invoicing, extortion using official authority, nepotism and favouritism, tax or duty evasion, computer fraud, etc., are some of the most typical fraud and corruption.

Fraud poses a serious problem from an audit perspective because it is normally accompanied by efforts to cover, falsify and misdirect entity records and reporting. Fraud and corruption are interlinked, although certain types of fraud do not necessarily qualify for being viewed as corruption and can be perpetrated by an individual or a small group.

While fraud and corruption should be perceived independently for their numerous implications, the auditor should be well aware of the complex correlation between the two. Fraud and corruption includes both those committed by government employees or management of an auditee and those perpetrated against the auditee by outside individuals or groups.

Auditors should be alert for situations, control weaknesses, inadequacies in record keeping, errors and unusual transactions or results which could be indicative of fraud, improper or unlawful expenditure, unauthorized operations, waste, inefficiency or lack of probity.

In searching for the evidence of fraud and corruption, the auditor must always search for the strongest possible evidence and investigate it without delay. In doing this, even small clues or leads should not be ignored and facts that confirm or refute suspicions should be looked for.

The auditor should concentrate on the weakest point in the fraud and corruption and must identify and summarize the evidence indicating that fraud and corruption may have been committed. The possible extent of the fraud and corruption should be identified, the pattern used in covering up the fraud and corruption explained and any possibility of collusion examined.

The possible scenario of fraud and/or corruption should be identified and summarized, the accounting and control systems involved, the paper trail involved in the transaction and the deviations from the systems explained.

The auditor may rely on the following sources for evidence:

- Originals or photocopies of documents from the auditee.
- Internal Audit Report
- Information collected by interviewing various employees of the auditee.
- Report on physical verification, inspection and observation of documents
- Reply to questionnaire issued to the auditee
- Information obtained from other related parties like bank, treasury, etc.
- Results of analysis of financial and non-financial information
- Expert opinion

It is an essential function of management to establish controls and safeguard assets of the entity. However, it does not relieve the auditor of his responsibility to provide a creditable assurance within his supreme audit institution's audit mandate about the actions taken by the management or those that may materially affect the picture that emerges from audited financial reports.

When cases of fraud, defalcation, etc. come to notice during local audit, audit should carefully examine the case to ascertain whether the defalcation or loss was rendered possible by any defect in the rules or whether it was due to neglect of rules or lack of supervision on the part of the treasury or other authorities. Audit party should report the matter to the Head of office and request him to keep the connected records in his safe custody, simultaneously reporting the matter to the concerned Deputy Accountant General of AMG groups for further action.

(Authority ASOSAI Guide Lines for dealing with Fraud and Corruption)

Annexure-I

(Referred to in Paragraph 4.33)

REGISTER OF STORES (MATERIAL/EQUIPMENTS) RECEIVED UNDER INDIA-U.S. TECHNICAL CO-OPERATION AGREEMENT

NAME OF DEPARTMENT

RECEIPT

Serial number	No. Date of Government of India's letter allocating the stores (materials/ Equipments etc.)	Date of Receipt of stores	Quantity received with brief description	Values in Rupees treated as Loan	Charges borne by the State Government (Freight, Grant, Custom, Duty etc.)	Total	Head of Account under which adjusted
1	2	3	4	5	6	7	8

DISPOSAL

BALANCE

Date of issue of stores	Scheme of work for which issued	Quantity issued with brief description	Value in ₹	Head of Accountant to which it is finally debitible	Total	Quantity stores with brief description	Value in ₹.	No.& date of A.G.'s letter intimating adjustment in state Section	Signature of the officers
9	10	11	12	13	14	15	16	17	18

CHAPTER-V

VERIFICATION OF SERVICE BOOKS, LEAVE ACCOUNTS AND INCREMENTS

5.01 In the offices inspected, the local audit staff should examine the service books and leave accounts of non-gazetted Government servants to ensure that they are kept according to rules. With the discontinuance of the Annual Establishment statements, the service books are the only documents for the verification of service for pensions and therefore adequate attention should be paid during local audit to the verification of service books.

5.02 Quantum of check.

The service books of the members of staff in an office should be checked to the extent prescribed below:

<u>Periodicity of audit</u>	<u>Quantum of check to be done.</u>
Annual	25 percent
Biennial	50 percent
Triennial, quadrennial and quinquennial	100 percent.

Service books should be checked in such a way that all the service books are subjected to audit scrutiny in a cycle of four years. However, the service books of persons due to retire within the next five years should invariably be checked even if the percentage exceeds the quantum of audit and while scrutinising the service books of these persons the following checks should be exercised:

The party should ensure that, the service book is complete in all respects and events affecting pension have been clearly spelt out along with the remarks of the competent authority and there are no missing links.

The party should also check that the nominations regarding Death-cum-Retirement Gratuity, General Provident Fund(GPF), Family Benefit Scheme(FBS), etc have been made by Government servants who are due to retire and suitable note has been kept in the service books. Cases where the nominations are not available are to be brought to the notice of the Head of the Office.

A separate note containing the following details of verification should be furnished by the Local Audit party along with the Inspection Report:

Total number of service books maintained in the office. Number of service books selected for scrutiny according to quantum fixed. List of persons due to retire within the next five years (the party should mark in the list the names of persons due to retire within the next 18 months).

A certificate by Local Audit party that the requirements of para 3 (ii) and (iii) of CAG's letter No.29 Audit-II/85 (No.1010-Audit-II/218-85) dated 2-7-1985 have been observed

and that nominations in respect of GPF/DCRG etc. have been ensured and that nominations in respect of personnel and suitable notes have been kept in the Service Books.

Local audit parties auditing Government Upper Primary and Lower Primary schools should ensure that all the service books in the schools are checked during audit.

(CAG's Cir. No. 29-Aud-II/85 (No.1010-Aud.II/218-85) dated 2-7-1985)

In the case of offices where local audit is not conducted regularly, the service books and leave accounts of non-gazetted Government servants should be made available to the local audit party when they visit the headquarters station of the area wherein these offices are located. The OAD (HQrs) Section will issue intimation to the offices concerned to furnish the relevant documents to the local audit staff at the specified place. The heads of such offices may also be asked to send the service books (including leave accounts) of non-gazetted employees who are due to superannuate during the next five years, to the Central Office. Alternatively, Special Audit Party will be formed for undertaking the verification as and when found necessary.

(CAG's Letter No. 32 Admn. II/349-61 dated 4-1-1996).

5.03 Check of Service Books and Leave Accounts.

(a) While checking the service books it should be seen that

- (i) A service book is maintained for every non-gazetted Government Servant in accordance with the rules applicable to him with necessary leave accounts in the prescribed form and that it is kept up to date.
 - (ii) Entries of all events in the official career of a Government Servant are made in his Service Book and attested by competent authority.
 - (iii) the date of birth is verified with reference to documentary evidence and a certificate recorded to that effect by the head of the office stating the nature of document relied on;
 - (iv) The service books contain certificate of annual verification of service with reference to Acquaintance Rolls etc.
 - (v) No alteration of the date of birth is made without sanction of the competent authority.
 - (vi) The entries in the first page are re-attested every five years
 - (vii) The entries in the pay column in the service book are verified with reference to the office copy of pay bills for the month or the months selected for detailed audit to see that they agree.
 - (viii) That excess leave granted/ surrendered or excess leave salary drawn if any, are regularised early, especially in the case of persons who are likely to retire from service before the next inspection.
 - (ix) the correctness of the pay and increments allowed to the individual from time to time for the period to which the check of service book relates should also be checked in the service book selected for scrutiny during local audit.
- (b) Leave accounts, including accounts of persons likely to retire or likely to complete 30 years of qualifying service are checked in detail to see that: -

- (i) It has been properly posted and closed after the incumbent returns to duty from leave and every entry has been duly attested.
- (ii) The leave sanctioned has been correctly posted in the leave account and the entry of the leave sanctioned order has been attested.
- (iii) Leave at credit has been correctly calculated in accordance with the rules and the leave account has been revised with reference to orders regarding completion of probation, confirmation etc.
- (iv) The fact of issue of certificate under Fundamental Rules 26(bb) or corresponding State rules is recorded, where the period of leave is counted as service for increment under that rules.
- (v).Subsidiary leave account have been maintained wherever necessary.
- (vi) The collective record of the various kinds of special leave granted to the employee is maintained.
- (vii) The nature and extent of leave-sanctioned is correctly due and admissible to the employee.
- (viii) There are no cases of evasion of leave rules.
- (c) It should be remembered that in addition to a complete check of the service books and leave accounts selected, the inspection staff should give suitable instructions to the staff of the office concerned to ensure proper maintenance of all service books and leave accounts.

5.04 Check of Leave salary, Increments etc.

OAD sections concerned will send paid vouchers for the selected months to the OAD parties. The check contemplated, vide serial number 5(b) and 6 of para 8 of memorandum of instructions issued by the Comptroller and Auditor General should be exercised in local audit in respect of leave salary drawn and increments accruing and drawn during those selected months.

(O.O. No.OAD/Control/7 dated: 17.2.1964).

5.05 Check of increments granted to Government servants whose names do not appear in the pay bills

A test check of increment granted to Government servants whose names are not required to be shown in the pay bills (including class IV/Last Grade Government servants) in the various offices in the State has to be conducted during local inspection.

The test audit of increments granted to such government servants may be confined to the year of inspection generally and may be extended to the earlier periods also if the scrutiny of the increments granted during the warrants and examination of the previous increments. The check may be exercised with reference to the entries in the service books, office copies of the pay bills and acquaintance rolls.

5.06 Register for recording particulars of special kinds of leave.

A record of various kinds of special leave granted to Government servants from time to time, should be maintained in a register in the prescribed form by the sanctioning authority in order to facilitate the check by local audit parties to see whether the

conditions for the grant of the same have been fulfilled in individual cases. This register may be specially looked into in local audit.

5.07 Audit enforcement.

The service books checked during local audit should bear an audit enforcement in the following form duly signed by the supervising officer/ AAO in charge of the Audit Party. The signature should be dated.

"Checked during the local audit / inspection and found in order ".

A certificate to the effect that the service books have been checked and audit enforcement may furnished in the service books.

(O.O.No.18/OAD-I/23(31)/3503 dtd. 15.10.1962).

5.08 Check of retention in service beyond the date of superannuation.

The check of retention of non-gazetted Government servants beyond the date of superannuation was hitherto done in central office with reference to the Establishment Returns. With the abolition of establishment returns local audit parties are required to check, whether any non-gazetted Government servant has been retained beyond the date of superannuation at the time of verification of service books locally.

(O.O. No. 18/OAD-I/33(31) 3505 dated: 15.10.1962)

5.09 Personal claims of State Government Officers

At the time of local audit at each Office the Supervising Officer/ AAO should collect the details of all the personal claims to State Government employees (both Gazetted and Non-Gazetted) such as pay slips, claims on account of pension, provident fund etc. pending settlement. The details collected should be sent to the personal address of the Group Officer concerned. In the case of institutions where there are no details to be collected, a "Nil" remark should be indicated in the separate sheet enclosed with Annexure of Inspection Report.

5.10 Issue of audit enquiry regarding recovery of excess payments etc.

During the course of audit of expenditure, field parties issue audit enquiries to Heads of Office directing them to recover the excess payments made on account of irregular fixation of pay of serving Officers of various departments of Government of Gujarat. When the affected officers approach Courts with a plea to quash such directions, Headquarters Office find it difficult to defend the cases through Advocate General. Hence, all Audit Parties are directed not to issue any 'directions' to the departmental officers for recovery of excess payments/ re-fixation of pay etc. while detecting any irregularity. Instead, the departmental Officers may be asked to re-examine the case based on the orders/ directions issued by Government, quoted in the Audit Enquiry.

CHAPTER- VI

AUDIT OF GRANTS OR LOANS GIVEN TO AUTHORITIES/BODIES FOR SPECIFIC PURPOSE

6.01 The audit of grants or loans for specific purposes should begin with a scrutiny of sanctions issued by competent authorities. It should be seen that they are competent to sanction the loans or grants and while doing so, the financial rules governing them have been followed. The second step will be to see whether the grant or loan has been utilised by the recipient body or authority for the purpose for which it is sanctioned. The financial rules of the Central, State and Union territory Governments make the sanctioning authorities or disbursing authorities responsible for satisfying themselves about the fulfilment of conditions attaching to the grant or loan and for furnishing to the Sr. Audit officer certificates of utilisation within prescribed period. These utilisation certificates are to be watched through the register of grants or loan register. To make the audit of grant or loan for specific purpose effective, the first part of section 15(1) of CAG's (DP & CS) Act, 1971 provides for scrutiny by audit of the procedures followed by sanctioning authorities in regard to proper utilisation of grants or loans and fulfilment of conditions attached to them. In exercising this part of the check it will be necessary for audit to study the procedure prescribed for the sanctioning authorities to satisfy themselves regarding proper utilisation of loans or grants and to check up whether they are following the prescribed procedure and whether the procedures themselves are not deficient in any respect. Factors like the amount of grants/loans sanctioned, existence of prescribed procedural instructions, existence of efficient internal audit and administrative inspection systems in the departments for an effective control over the proper utilisation of grants and loans are to be looked into in this connection. The second part of section 15(1) gives CAG the right of access to the books and accounts of the recipient bodies or authorities and this scrutiny is not obligatory. Decision to undertake the actual scrutiny of the books and accounts of particular bodies or authorities receiving grants/loans for specific purposes, may be taken in the light of the examination referred to above. During the scrutiny of the procedures followed by the sanctioning authorities, the accounts and audit arrangements existing in the recipient body or authority should be ascertained. Unless proper arrangements in these respects exist and the accounts of the said body or authority stand audited by its usual auditors for the period in question, local scrutiny of its books and accounts may have to be deferred as a matter of prudence till such audit is got completed by the recipient body or authority. The absence of or deficiency in such arrangements and the consequent delay in Audit scrutiny by us of the books and accounts should be mentioned in a separate paragraph in the chapter on "Grants and loans" of the audit report.

The instruction contained in paragraph 10 of CAG's letter No149-TA-I/50/69-Vol.II dated: 2.3.1974 regarding the scope of audit of section 14 of the CAG's (DP & CS) Act, 1971 and in the annexure thereto regarding the institution wise register, should apply to section 15 also. In certain States, besides Government, subordinate authorities are also empowered to sanction grants or loans to different bodies or authorities, copies of

sanction of which are not received in audit although the sanction of grants or loan implies an outgo from the Consolidated Fund. In many cases, there may not be any formal sanction as such, the mere countersignature on bills signifying such sanction. There may be cases where sanctions accorded by subordinate authorities are not sent in advance to Audit but copies of the sanctions are attached to the bills in which the amounts are drawn. In these cases, which will ordinarily be for comparatively small amounts, it may perhaps be impracticable to keep a complete record in the register referred to in the previous paragraph. In regard to such cases, when local audit is undertaken of the offices of the sanctioning authorities the Inspecting Officer should scrutinise the records relating to sanctions issued by them and report the amount of grants or loans sanctioned together with relevant particulars regarding the recipient bodies or authorities to the OAD (Hqrs)/ECPA section to determine whether the books and accounts of a particular recipient body or authority should be scrutinised locally.

6.02 Scope of audit of accounts of authorities or bodies.

The right of access to the books and accounts of authorities or bodies under section 15(1) will be limited to checking whether the grant or loan received from Government has been duly shown as receipt in the accounts of the authority or body, whether the grant or loan has been fully utilised for the purposes or objects for which they were sanctioned and the financial procedure, if any, prescribed in this behalf has been observed, whether unspent balance, if any, has been refunded to the Government and whether the conditions attached to the grant or loan have been fulfilled.

(a) "Specific purpose" loan or grant will include loan or grant to cover deficit, but not general purpose loan or grant without any condition. In case of doubt, whether a loan or grant was for a specific purpose, the Government/Department files leading to the issue of the relevant sanction should be consulted.

(b) If the recipient of a "Specific purpose" loan or grant happens to be an "individual" or a "firm", full particulars of the case, with the views of the Accountant General about the desirability of audit of the accounts, should be reported to the Hqrs. office for orders.

(c) In case of "Corporations", if the law by or under which these have been established provides for the audit of its accounts by an agency other than the CAG, the right of access to their accounts is not available to him unless specifically authorised by the President/Governor under section 15(2) of the Act.

(d) The results of audit should be communicated in the form of inspection reports as per section 13 audits, addressed to the sanctioning authorities, with extracts of relevant portions to the authorities/bodies. Facts indicated in the draft reports should be got verified by the head of authorities/bodies where accounts are locally audited and the report as a whole discussed with the sanctioning authority.(CAG's letter No214-TA-I/35-74 dt:25.3.1974 is reproduced at the end of this chapter).

After scrutiny of sanctions in the office of the sanctioning authorities, if a detailed audit of accounts of authority/body situated outside the State is decided upon, the concerned

Accountant General of the State in which the institution is located could be requested to do the audit.(CAG's letter No1078-TA-I/76-75 dated: 2.12.1975).

General instructions relating to grants-in-aid audit are contained in Chapter 5 of Section III of MSO (Audit). The following subsidiary instructions are issued for guidance.

6.03 Rules regulating grants-in-aid

Financial rules and conditions governing grants-in-aid are prescribed by competent authority and embodied in the grants-in-aid or other codes of the departments concerned.

6.04 System of payments of grants

There are two types of payments (1) Pre-payment system and (2) Post-payment system. A grant may be paid to meet the expenditure for a specified purpose in advance and before the actual expenditure for the period can be ascertained. It may be based on an estimate of the probable expenditure of the corresponding period, as modified by careful forecast of circumstances likely to affect the actual expenditure of the period in question. Such grant is said to be on the pre-payment system. A grant is said to be on the post-payment system, when it is a contribution to meet the whole or a moiety of the expenditure already incurred by the grantee.

6.05 Condition of grants

Every payment of grants-in-aid on the pre-payment system involves three principal processes: -

- i) Sanction of the Grant.
- ii) Disbursement to the grantee.
- iii) Utilisation of the grant by the grantee.

In the case of grant paid on the post-payment system there are only two stages viz. (i) and (ii) above since the expenditure has already been incurred by the grantee, i.e. stage (iii) precedes stage (i).

6.06 The local audit of the accounts of grant-in-aid is conducted in two stages: -

- i) Local audit of the accounts in the office of the sanctioning authority.
- ii) Local audit of the expenditure incurred at the institutions of the grantees, where such a course of action is decided upon.

6.07 Conduct of audit of grants

The checks to be applied in local audit are detailed below:-

(A) At the office of the sanctioning authority

At the time of Test Audit, which is to be conducted at the office of the sanctioning authorities, it should be seen:

- (i) that the grant has been sanctioned by the competent authority in exercise of the powers conferred on it under the rules and regulations framed by Government.
- (ii) that the conditions, if any, attached for the eligibility of the grantee concerned prior to receipt of a grant were duly fulfilled.

- (iii) Where the admissible amount of the grants has been calculated in the manner prescribed in the Departmental rules or orders after obtaining necessary statements like audited accounts, etc.
 - (iv) Whether the grant has been sanctioned after obtaining full particulars from the grantee and not in advance of receipt of such particulars.
 - (v) Whether the grant has been sanctioned only upto the extent of requirement and to the extent which can be utilised in the financial year and whether any time for the expenditure has been fixed.
 - (vi) That there is proper method by which the sanctioning authority satisfied itself about the fulfilment of the conditions and whether the method is adequate.
 - (vii) Whether necessary periodical reports, statements, etc. have been prescribed by the sanctioning authority and whether their receipt on the due dates from the grantee is properly watched.
 - (viii) That the accounts rendered by the grantee are complete and duly supported by relevant vouchers and payee's receipts;
 - (ix) Whether the procedure for internal check of the grantee's account is adequate and whether the certificate furnished by the administrative authority is based on such checks.
 - (x). That the statements preferred for claiming the share reimbursable by the Government of India are correct in all respects.
 - (xi) Whether the register of grants-in-aid maintained by the sanctioning and disbursing authorities is (i) in proper form, (ii) whether the entries have been made properly as and when, (a) sanctions are issued and (b) the bill is received from grantees for counter signature.
 - (xii) Whether there is a tendency on the part of the sanctioning authority to sanction the payment of the grant-in-aid towards the end of the financial year with the stipulation about spending it during the year which practically becomes impossible to fulfil and consequently gives rise to several irregularities.
- (B)** At the offices of the grantees.

It should be seen:

- (i) Whether the expenditure incurred is closely related to the object for which the grant was made and whether there is any diversion of funds.
- (ii) Whether the expenditure has been incurred with planning and economy.
- (ii) Whether the grants are spent according to the conditions and action has been taken to refund the unutilised portion within the time specified.
- (iv) Whether all the registers including stock register for purchases from Government grants have been maintained properly and checked periodically.
- (v) Whether the scale of expenditure is approved and the purchases are made economically by calling for tenders or quotations.
- (vi) Whether in the case of accounts of works, maintenance of muster rolls, measurement books, preparation of estimates and payment of bills have been done observing the general principles and whether there is any evidence of periodical check of the progress of work.

- (vii) Whether the records of the grantees bear evidence of check by the sanctioning authorities and whether periodical registers or statements prescribed by them have been sent to them on the prescribed dates and whether the statements represent true extract of the initial records.
- (viii) Whether in the case of recurring grants the grantee continues to function in accordance with the terms and conditions attached to the grant and whether the circumstances in recognition of which the grant was sanctioned still continue to exist.
- (ix) That the unspent balance is not utilised in subsequent year without obtaining sanction of the competent authority.
- (x) That there is no undue delay in submission of accounts by the grantees.
- (xi) That all payments are covered by proper vouchers and sanction for payments.
- (xii) As regards payment of grant-in-aid to freedom fighters and their families it may be scrutinised with reference to initial records whether the concerned authorities have followed the rules in scrutinising application for assistance under the schemes and have satisfied themselves about the eligibility of the applicants for the grants of such assistance. During the course of local audit of accounts in the office of the disbursing authorities, it may, inter alia, be seen whether the conditions attached to the grant of such assistance have been fulfilled, both in respect of recurring and non-recurring payments and prompt action has been taken in the case of breach of any of the conditions.
(Vide OAD D-II/O.O. No.12 dt: 10.3.1971).

6.08 Common irregularities

A list of common irregularities which occur in the payment of grant-in-aid is given as *Annexure-I* to this chapter.

6.09 Non-receipt of utilisation certificate

The CAG has decided that in respect of grants-in-aid, where utilisation certificates have not been submitted to audit, the reasons thereof should be investigated at the time of local audit of the offices of the sanctioning authorities and a brief mention of the reasons for the delay should be made in the conventional Audit Report. The Assistant Audit Officer of the local audit parties concerned should ascertain in writing the reasons for the delay in the submission of the utilisation certificates and incorporate suitable paragraphs in the Inspection Reports.

(O.O. No. OAD D/Control/20 dt:11.2.1965).

Some important checks to be applied in the audit of grants-in-aid are given in *Annexure-II* to this chapter.

6.10 Inspection Reports

The results of audit of the grant-in-aid transactions at the office of the sanctioning authorities will be incorporated in the regular Inspection Report of the institution as usual.

- (a) The procedure to be followed for the issue and pursuance of inspection report relating to audit in grantee institution will be as follows:

The Sr. Audit Officer is not the final authority either to condone any irregularities noted in audit or to ensure adequate action by the private institutions receiving the grants-in-aid to settle the objections promptly and satisfactorily. It has, therefore, been decided in consultation with Government of India, Ministry of Finance, that the Inspection Reports in such cases should be forwarded to the Administrative Ministry concerned (with a spare copy) with the request that necessary action may be taken to have the irregularities set right and to keep the Sr. Audit Officer informed of the action taken from time to time. The Inspection Report in respect of the grants sanctioned by the State Government should similarly be forwarded to the departments concerned.

(CAG's letter No.1312/Admn-11/283-89 dated: 8.6.1959).

(b) The reports on the utilisation etc. of the grants received from the grantee institutions should mainly be concerned with admissibility and utilisation of grants-in-aid paid. The report should state the amount received as grant-in-aid, the amount found admissible and excess payment of grant, if any, if there is any item of expenditure, admissibility of which is doubtful, it should be mentioned separately, indicating the amount involved on each account.

The following instructions should also be borne in mind.

(i) A certified copy of the Income and Expenditure (or Receipts and Payments) account and balance sheet for the accounting year of the institution during which the grant was paid should be obtained from the institution, checked with reference to the original records and attached to the report in all cases after certifying them as checked.

(ii) Where overpayments of grants are noticed, the exact amount overpaid should invariably be calculated and mentioned in the Inspection Report. Where this is not possible, the reasons therefore should be mentioned in the margin of the relevant paragraphs.

(iii) Important irregularities should be prominently indicated in the title sheet. The following irregularities are generally considered for inclusion in the Conventional Audit Report.

- 1 Inadmissible or excessive payment of grants.
- 2 Unutilised grants not refunded within the prescribed period.
- 3 Wasteful, uneconomic or in fructuous expenditure from grants.
- 4 Non fulfilment of conditions attached to grants.
- 5 Misappropriation and other irregularities.

(O.O. No. 8-OAD-I/165/392 dt: 26.6.1962).

6.11 Grants-in-aid sanctioned by the Government of India.

According to the simplified procedure of payments of grant-in-aid, the Director of Audit Central Revenue would exercise audit checks with reference to the records in the office of the Ministries of GoI located at New Delhi and that office would be responsible for watching the utilisation certificates. The inspection reports, draft paras, etc., in respect of grantee institutions located in the audit jurisdiction of the State Accountants General should be processed by the respective Accountants General. The draft paras finally

approved for inclusion in the audit report should, however, be sent to the Director of Audit Central Revenues through Comptroller and Auditor General as hitherto fore. (AGCR New Delhi's letter No.TM/7-1/68-71/1390 dt: 15.2.1971 and No.TM/ 7-1/68-79/323 dt: 24.6.1971).

6.12 Audit of Loans:

The instructions pertaining to loans granted by Government can be broadly classified into two categories:

- (i). Loans in respect of which Accountant General's Office is responsible for maintenance of detailed accounts and for watching the prompt recovery of principal and interest.
- (ii). Loans in respect of which the above responsibility rests with the departmental officers and for that reason, only lump sum amounts are posted in the records maintained in the Accountant General's Office.
 - (a) Local audit is undertaken by PAG's/AG's Office in respect of the second category only. Loans are sanctioned by the State Government as well as by Departmental Officers under different schemes of giving loans. The responsibility of maintaining the ledger accounts of all loans (including loans sanctioned to individuals by Government) sanctioned by departmental officers is that of the sanctioning authority (vide Government of Gujarat, Finance Department's circular No. FD/ loans /A/12 dated: 18.4.1961).
 - (b) In respect of the loan, the local audit parties have only to verify whether the certificates on the strength of which the disbursement of loans are admitted in central audit are given with due care by the officers who disburse the loans amount and the authorities have satisfied themselves completely as regards fulfilment of conditions attached to the loans.

6.13 Scope of audit:

The main object of local audit is to ensure that the loans disbursed are covered by sanction of competent authority and are in accordance with the prescribed rules. The payments are recorded in the relevant registers and their proper utilisation and recovery are closely watched by the department.

6.14 Accounts Records:

The various accounts records to be maintained by the departmental officers in respect of the loans sanctioned by the departments are enumerated in the instructions issued by the Government or the Heads of the Departments from time to time. These instructions should be studied by the local audit staff before commencing audit.

The more important accounts records are given below:

- i) Application for loans and enquiry reports.
- ii) Valuation reports of properties offered as security.
- iii) Loan orders (Sanctions)
- iv) Payment vouchers with acknowledgment of loanees.
- v) Security bonds.
- vi) Periodical progress reports to higher authorities.

- vii) Loan ledgers and subsidiary registers, if any.
- viii) Control Register.

6.15 Process of audit

- (1) The following checks should be exercised by local audit in respect of loans for which ledger accounts are maintained by the departmental officers.
 - (i) A list of schemes under which loans are sanctioned with the relevant orders sanctioning the loans schemes should be obtained and the orders studied carefully before commencing the audit of loans transactions.
 - (ii) The sanctions for loans issued during the period covered by the inspection should be obtained. These sanctions should be scrutinised with a view to seeing that the loans are sanctioned to eligible persons after receiving the report of enquiry officer about solvency of loanees and that the terms and conditions prescribed in the sanctions are in conformity with general orders governing the scheme of giving loans. It should particularly be seen that the terms and conditions prescribed for repaying the loans are clear and that there is no ambiguity or room for misconstruction in this regard. It should also be seen that a specific provision to charge penal interest is made to prevent default in paying the instalment of principal and interest on due dates.
 - (iii) It should be seen that adequate security is taken and mortgage deeds are executed wherever necessary. It should also be seen that terms and conditions are accepted by loanees before the loans are disbursed to them.
 - (iv) The checks to be exercised in scrutinising the loans ns ledgers are mentioned below:
 - (a) The sanctions should be traced in the ledger and it should be seen that the information necessary for maintaining the account of loans such as rate of interest, number of instalments in which the loan is repayable, whether the instalments payable are equal instalments or equated instalments, the due date of repayment, the penal rate of interest for default in making the payment, etc. are noted in the ledger folio.
 - (b) The vouchers received from the main office should be traced in the ledgers and it should be seen that the disbursements are correctly noted.
 - (c) It should be seen that the amount of principal, interest and penal interest are worked out and posted correctly in the ledger and demand notices have been issued in time. The loan accounts should be checked in detail from the beginning or since last audit, as the case may be, to verify the correctness of repayments made from time to time. In exercising this check, it should particularly be verified that annual equated instalment of repayment is correctly worked out in respect of loan which are repayable by annual/half yearly equated instalments which includes elements of both principal and interest payable annually/half-yearly.
 - (d) The repayments of principal and interest amount noted in the ledger should be verified either with the copies of challans duly certified by Treasury Officers and available in office or with entries in the cash book.
 - (v) The departmental officers are expected to submit periodically statements of arrears demands to the controlling officers. The position of demand in arrears as on 1st April

each year should be ascertained from the statement which should be subjected to test check and the amount mentioned in the Report. Progress made in the recovery of arrears since 1st April should be also mentioned separately in the Report. If the statement is not available, the departmental officer should be asked to furnish a statement of overdue recovery as at 1st April with yearwise breakup. It should be seen whether adequate steps have been taken for recovery of the outstanding dues, special attention being paid to the amounts outstanding for a very long time. Due note should be taken of overdue instalments of principal and interest.

(vi) It should be ascertained whether the departmental officer has obtained utilisation certificates from the loanee in respect of all the loans disbursed by him irrespective of the fact whether the Ledger accounts of the loans are maintained by him or not. The procedure followed by the departmental officer to verify the correctness of such utilisation certificate should also be verified.

(vii).The administrative or other reports of the departmental officers to higher authorities regarding working of the schemes of giving loans should be gone through to see how far the purpose for which a particular scheme is launched has been achieved.

Note: The checks mentioned in para 6.15 (i), (ii), (iii), (iv), (a), (b), (d), (v) and (vi) above have to be applied in respect of loan transactions which took place in the months selected for detailed audit and in general to transactions for other months covered by audit. The points mentioned in para 6.15 (i) (iv) (c) and (vii) have to be looked into in general for all loan transactions occurring during the period covered by inspection by selecting some loan accounts at random.

(O.O. No. Loan-I/3/1 dt: 29.8.1962).

(viii) It should be also seen that:

- i. The application is in proper form and contains all the required details essential for the sanction of loans.
- ii. The security offered is free from encumbrances, is up to the percentage as stipulated in rules and necessary solvency certificates have been obtained wherever necessary.
- iii. The loan order is within the amount admissible under the rules and within the power of the sanctioning authority.
- iv. The amounts sanctioned are according to the immediate requirements.
- v. The amounts are drawn and disbursed only up to the required extent and not with a view to avoid lapsing of funds.
- vi. The receipt and disbursement of money are promptly and properly recorded in the cash book.
- vii. the security bond is kept in safe custody
- viii. The fact of payment is clearly recorded and acknowledgement obtained from the loanees.
- ix. When the loan amount is disbursed in instalments, the conditions stipulated for the release of each instalment are satisfied.

- x. The recovery of principal and interest is prompt and that in case of default, action is taken to recover the instalments with penal interest at the prescribed rate.
- xi. in cases where the authority for recovery of the instalments of loan and the interest is vested in the Revenue Department, necessary advice or intimation in the prescribed form is sent to them promptly and certificates or acknowledgements are obtained wherever necessary;
- xii. The loan ledgers and other subsidiary registers prescribed are maintained in the proper form observing the instructions issued from time to time, and kept up to date.
- xiii. The periodical returns prescribed have been prepared and sent on the due dates to the authorities concerned.
- xiv. The demand, collection and balance statement shows the position correctly on any fixed date;
- xv. The loans are utilised for the purpose for which they are granted, and there are no cases of diversion of funds and that there are proper methods for ascertaining the same;
- xvi. The details of loans work up correctly to the lump sum total for the months and there is proper reconciliation of the figures of the treasury with those of the parties concerned; and
- xvii. The broad sheets in respect of functional loans and advances are maintained by the Chief Controlling Officer and sub-controlling officers and the directions issued therein are followed by them.

(ix) The correctness of the maintenance of records and recovery of the advances should be checked in local audit during the inspection of various offices. Check of debits during the months selected for detailed check should be conducted with reference to the payment details obtained from the concerned treasury.

The correctness of the Monthly Statement prepared by the Drawing Offices for communication to the Chief Controlling Officer and the Central Register maintained by the Chief Controlling Officer should be critically examined. The result of this examination should be incorporated in the Inspection Reports in two distinct paras captioned "Advances" and "Other short term loans and Advances".

6.16 Loans under the Low Income Group Housing Scheme and Middle Income Group Housing Scheme.

During local audit of Collector's Office and Taluka Offices the accounts of these loans should be carefully scrutinised with reference to the relevant rules.

6.17 Inspection Report.

The results of audit should be incorporated in the Inspection Report of the office, the expenditure of which is locally audited.

6.18. Material to be collected for the Audit Report

Major irregularities in the administration of loans and advances have to be commented in the Report. For this purpose, the local audit parties should collect material on the lines indicated in the *Annexure-III* to this chapter.

Annexure-I
(Referred to in Paragraph 6.08)

Important irregularities that occur in Grant-in-aid payments.

- 1 Grants drawn from the treasury are neither accounted for nor disbursed and utilised nor refunded to the treasury but retained in hand for indefinite period.
- 2 Conditions of grants are not fulfilled and the amounts are spent without any planning and estimate and departmental control over expenditure and without following the usual financial rules of Government to safeguard economy.
- 3 Utilisation certificate is not furnished and the utilisation of grant is not checked.
- 4 Actual payees' receipts are not available for audit check in proof of the payment.
- 5 Scale of expenditure is not approved as a condition of grant and purchases are made without calling for tenders or obtaining quotations.
- 6 Stock register of books, maps and furniture purchased out of grant is not maintained.
- 7 Contingent register is not maintained properly. Payment is made without obtaining completion certificate of work and technical scrutiny.
- 8 Grant sanctioned for one year is utilised in another year without obtaining fresh sanction.
- 9 Large amounts are drawn from the treasuries during the month of March evidently to avoid lapse of grants. In some cases sanctions to individual works are accorded in the course of the next financial year or yet to be issued.
- 10 Statement of expenditure on schemes for which grants-in-aid was given is not submitted to audit punctually in many cases.
- 11 Amounts drawn in a year for execution of work are not utilised during that year. In some cases the amounts are redeposited in the treasuries.
- 12 Certain works were left incomplete because the anticipated public contribution was not forthcoming. In a few others the amount of the grant was drawn and spent but the construction is reported as still to be undertaken.
- 13 Defective maintenance of register in respect of flood relief. No stock books of articles of clothing and rice purchased for relief maintained. No account is kept of a large amount of grant made to a local body for relief work.
- 14 Diversion of grant from one head to another without previous approval of authority sanctioning the grant.
- 15 There are a few cases in which the amount of the grant sanctioned was much in excess of the amount that could be utilised during the course of the year and where the unspent balance was subsequently allowed to be utilised in the following year.
- 16 Certain local bodies and institutions do not surrender the unspent balances of grants.
- 17 Overlapping of grants and duplicate sanctions.
- 18 Miscellaneous irregularities in the accounts of works e.g. improper maintenance of muster rolls, payments of final bill in advance of the execution of work or without detailed measurement, expenditure in advance of requirements, avoidable and unauthorised expenditure and execution of work on the basis of revised estimates which have not been sanctioned, etc.
- 19 Scales of admissible staff, rent of buildings, misc. items of expenditure etc., not properly observed.
- 20 Free Ships lying undisbursed.

Annexure-II
(Referred to in Paragraph 6.09)

Checks to be applied

It should be seen that:

- i) A financial statement duly certified by an approved auditor has been submitted by the Management showing all receipts and expenditure of institutions for the previous year.
- ii) The financial statement shows a deficit to justify a grant from Government.
- iii) The various subsidiary statements to the financial statements have been scrutinised with reference to the relevant rules and instructions issued by the Government/Department from time to time.
- iv) The admissible items alone are taken into account in the assessment of grant.
- v) The method and the memorandum of calculation of grant payable are correct and statement attached thereto.
- vi) The deficit is arrived at as the excess of "approved" expenditure.
- vii) the sanction issued as a result thereof is in order.

Annexure-III
(Referred to in Paragraph 6.18)

Loans and advances -- Materials to be collected for the Report of the Comptroller and Auditor General.

The Comptroller and Auditor General of India has decided that major irregularities in the administration of loans and advances including chronic delays should be commented upon in the Audit Report. In order to enable this to be done, the local audit parties should collect materials on the following points as and when they visit various offices where the initial accounts of loans are kept, like office of Heads of Departments, Collectorates, Regional Offices, Block Offices, offices of Revenue Divisional Officers, Tahsildars etc.

1. The broad features of the loans, the detailed accounts of which are maintained by the office;
2. The total amount of loans paid under each category and the amount outstanding as at the end of 31st March of the previous financial year;
3. The number of loans and the number of cases where the payment of principal was due on the 31st March and whether the repayments are being made promptly;
4. The number of defaulted loans under each category of loans whose repayment of instalments was due on 31st March, the amount involved in defaulted cases and the number and amount of cases where default is more than 6 months, more than one year, more than 2 years, more than 3 years etc.
5. The extent of default in the payment of interest should be brought out with category-wise and year-wise break up;
6. Whether levy of penal interest has been provided for in the rules in case of default if so, whether such penal interest is being recovered. Cases of non-recovery should be specially mentioned.

7. Whether the office is taking prompt action for the collection of instalments and whether action taken is adequate;
8. Whether the proper utilisation of the loans as per rules governing the loans are being watched and if not in how many cases this is not being done and the details of such cases, whether utilised loans are being got refunded in all cases should be specially looked into and the position commented. The irregularities noticed in the utilisation of loans should be specifically mentioned;
9. Whether the rules provide for obtaining certified accounts or other documents from the loanees and if so, whether the receipt of the same is being watched;
10. What is the state of initial accounts maintained by the office. Whether sufficient attention is being paid by the department to keep the loan registers up to date, to issue notices for repayments, to watch the repayments and to take action against defaulters.
11. Whether the rules provide for executing bonds or mortgage deeds and taking adequate securities etc., whether all such conditions are being observed, instances of violation should be given in detail;
12. Whether any loans are being written off and if so, details thereof with copies of relevant correspondence.
13. Details of loans affected by moratorium if any sanctioned by government.
14. Details of loans for which the terms and conditions have been fixed by Government.
15. Whether a system for communication of outstanding balances at the end of each year to the loanees for acceptance is obtaining.

The above instructions are not exhaustive. The audit parties should also collect material on other important points, if any, which strike them as fit for inclusion in the Report of the Comptroller and Auditor General. The material thus collected should be included in a special report and got verified and certified by the departmental officers and sent to OAD (HQrs). The special reports will be edited by OAD (HQrs) and forwarded to Report Section for further action.

CHAPTER-VII

AUDIT OF AUTONOMOUS BODIES AND PSUs

7.01 Audit of autonomous bodies is to be conducted by local audit parties with reference to the "Manual of Instruction for audit of autonomous bodies (2010)" issued by the Comptroller and Auditor General of India. This manual apart from incorporating guidelines for conduct of audit for certification of accounts of autonomous bodies and review of their performance presents together various instructions issued from time to time for the conduct of audit under Sections 14, 15, 19 and 20 of the CAG's (Duties, Powers and Conditions of Service) Act, 1971 and is supplemental to those contained in the CAG's Manual of Standing Orders (Audit).

Manual for Audit of Public Sector Undertaking issued by office of the PAG (E &RSA, Ahmedabad) (Now office of the PAG (Audit-II), Ahmedabad) (edition in force) and instructions guidelines, Manual issued by our HQrs office shall be followed in respect of Financial Audit of PSU. The instructions in the manual are not exhaustive and have to be supplemented in the field with reference to the nature of the organisations and transactions of different autonomous bodies.

ECPA and OAD -III Sections are responsible for co-ordinating the work relating to the audit of autonomous bodies such as identification and selection of institutions attracting audit under Sections 14 and 15 respectively. The audit of institutions under Section 15 is arranged and the issue, pursuit and settlement of inspection reports in this regard are also attended to by OAD-III Section. The Compliance Audit under Sections 19, 20 and PSUs is conducted by concerned AMG groups. Financial audit under section 19, 20 and PSUs is conducted by concerned AMG groups and action on the results of audit is taken up by Technical Cell (OAD-IV) section.

7.02 The list of the Autonomous Bodies under the State Government audited under Section 14 as on August 2021 is given in *Annexure-I* of this chapter-VII.

The audit and certification of Autonomous Bodies is taken up under the provisions of Section 19 and 20 of the Comptroller and Auditor General's (Duties Powers and Conditions of Service) Act 1971 (Vide. *Annexure-I* to Chapter-1). The Autonomous Bodies under the State Government under section 19 and 20 are dealt with in Technical Cell (earlier OAD-IV) Section as on August 2021 are given in *Annexure-II* to this chapter-VII.

The PSUs under the State Government are under the purview of PAG (Audit-I) as on August 2021 are given in *Annexure-III* to this chapter-VII.

7.03 Procedure to be followed by all AMGs and Technical Cell (formerly OAD-IV) in respect of SAB and PSUs

As per this office Circular no. Technical Cell/AMG-I/Audit-I/I- 2020 dated 29-06-2020, a Technical Cell has been constituted for supplementary Audit of PSU and Certification Audit of Autonomous Bodies. OAD-IV will work as Technical Cell for Financial Audit.

In this connection, procedures to be followed by Technical Cell and concerned wing are given as under:

1. The jurisdiction of the Technical Cell shall be Public Sector Undertaking (PSUs) and State Autonomous Bodies (SABs) which falls within Audit Jurisdiction of Office of the Principal Accountant General (Audit-I), Rajkot
2. Concerned PSUs and SABs shall submit their Annual Financial Statements (Accounts) directly to the Technical Cell. After scrutiny of the same for the completeness and prescribed formats of accounts; it shall be recorded in the "Accounts" register. After receiving the accounts concerned AMG shall be intimated to conduct the audit of the same.
3. The concerned AMG is liable to prepare Annual Audit Plan in respect of Financial Audit of PSUs and SABs and implement thereof.
4. As per Manual of Instructions for Audit of ABs; final SAR in respect of State Autonomous Bodies is required to be issued within four months of receipt of accounts. Further, as per Companies Act, 2013; final comments on the accounts of PSUs are required to be issued within two months from receipt of accounts along with Statutory Auditor's report. Hence, it is essential for concerned wing to perform prompt response/action in the matter related to deployment of Audit Party/call for Audit team for discussion of Comment/SAR/deputing personnel for collecting necessary information/verification of details for purpose of issuing Non Review Certificate etc, according to requirement of Technical Cell as the finalisation/approval of SARs and comments has to be passed through multiple stages including approval from our HQs office etc.
5. The concerned AMG group shall provide tour programme to Commercial/Qualified staff to carry out audit in timely manner with a copy marked to Technical Cell.
6. Audit team has to submit Draft SAR/comment, duly signed by them with all the key documents to the concerned AMG group. Thereafter, the AMG group shall transfer the submitted files to the Technical Cell immediately after maintaining the records of them.
7. Group Officer of concerned wing shall be responsible for supervising the audit team conducting Financial Audit under his jurisdiction as per instruction/mandatory provision/target given by the Principal Accountant General (Audit-I).
8. The Technical Cell shall carry out the further process for approval and issuing of DSARs/Comment from PAG/CAG under the supervision of DAG/AMG-I. The concerned AMG group shall be responsible for furnishing information (clarification) sought by Technical Cell and also sending the Audit Team for discussion of the SARs/Comments, if required by the Technical Cell.
9. All the files of SARs/Comments shall be maintained by the Technical Cell along with required registers. The Concerned AMG group shall also maintain the relevant register/records of details of SAR/Comment for Audit Planning Purpose.
10. In addition to the above mentioned tasks, various other work such as issuing of Non Review/Nil Comment Certificate, issuing of direction/Sub Director to Statutory Auditor,

Meeting of Statutory Auditor with PAG/Technical Cell, performance appraisal of SAs, finalization of comment as per approval of CAG in case of PSUs and Certification of account of ABs, and correspondence with them for any queries and other associated works, if any shall be done by the Technical Cell.

11. Technical Cell shall provide all information related to PSU report /SFR report & information regarding PSU audit fee to CAG. The Technical Cell shall be responsible for raising the audit fee from ABs for conducting the supplementary audit.

12. The Technical Cell can revise all or any of the procedures with approval of Principal Accountant General.

13. Henceforth, concerned AMG has to conduct compliance Audit of concerned SABs & PSUs under their jurisdiction and has to maintain IR files in respect of existing outstanding Paras of Inspection Reports of SABs and PSUs.

7.04 Entrustment of audit

Specific orders of Government/Body and the Comptroller and Auditor General of India are required for taking up the audit and certification of accounts of certain Autonomous Bodies under Section 19(3) and 20(1) of CAG's (DPC) Act. Action in this regard is to be initiated by the Technical Cell (OAD-IV). The Section will address the Govt/Body and the CAG's office on this matter. When the concurrence is received, the fact will be intimated to the APM Section.

7.05 Time frame

The audit and certification is done as per the instructions contained in the Manual of Instructions for Audit of Autonomous Bodies (Volume-I), 2010 issued by the Comptroller and Auditor General of India and as per circular instructions issued from time to time from his office.

The Comptroller and Auditor General of India had fixed the following time frame for the processing of Separate Audit Reports (SAR).

1.	Approved and authenticated annual accounts to be made available by the autonomous body to the concerned audit office and commencement of audit of annual accounts.	By 30 th June
2	Issue of draft SAR to the Chief Executive of the autonomous body.	By.31 st August
3.	Receipt of reply to draft SAR from the Autonomous bodies. (Two weeks from the date of issue of draft SAR).	By 14 th September
4.	Submission of draft SAR, with or without incorporating replies of the autonomous bodies to the Headquarter for approval.	By 21 st September
5.	Sending approved SAR by Headquarters to the Field office (two weeks from the date of receipt of draft SAR at Headquarters).	By 21 st October
6.	Final SAR in English version with Audit Certificate to be issued to the Autonomous body.	By 31 st October
7.	Hindi version of final SAR where this is done by Pr. AG/PDA themselves.	By 15 th November

(As per para 10.08 of Manual of Instruction for Audit of Autonomous Bodies 2010)

7.06 Checking of accounts received

On receipt of the accounts in Technical Cell (OAD-IV) it should be examined in detail to ensure that the following documents are received. Five sets of annual accounts should be submitted by the organisation.

1. Balance sheet- duly authenticated
2. Income and expenditure account duly authenticated
3. Receipt and Payment account duly authenticated
4. Schedules supporting the figures in Balance Sheet.
5. Significant Accounting policies.
6. Notes on Accounts.
7. Minutes of the Meeting of the Authority /Body approving the annual accounts.
8. The accounts should not bear the seal and signature of the Chartered Accountant who prepared the accounts.

If omissions are noticed in this regard, the wanting documents should be called for immediately. The date on which the wanting documents are received is deemed to be the date of receipt of accounts.

7.07 Arrangement of audit.

Immediately on receipt of annual accounts of a body, suitable party/parties should be identified for the audit of annual accounts and audit of transactions. In the case of small bodies audit of both annual accounts and transaction can be entrusted to one and the same party. But in the case of large bodies, it is advisable to deploy two parties one for the audit of annual accounts and the other for the audit of transactions.

The Parties and Supervising officer should be directed to report to concerned AMG group for briefing regarding the nature of audit, previous audit report and inspection report, major points that may come across during audit. The accounts should be handed over to the Party. The above directions should be conveyed in the form of a Note.

7.08 Audit and certification

The audit and certification of the accounts of the AB should be done as per directions contained in the Manual of Instructions for the Audit of Autonomous Bodies with reference to the Acts and Rules of the Body concerned. General principles of commercial accounting will apply to the Bodies and the accounts viz. Balance Sheet, Income and Expenditure Account and Receipts and Payments Accounts should be subjected to thorough scrutiny and comments included in the SAR.

7.09 Audit procedure

(a) On commencing audit, as the first step, the adequacy of various accounting systems and procedures, whether set out in the form of a manual or otherwise, should be examined and the extent of check of individual transactions should be determined based on the results of such examination. This is all the more necessary since generally only a small percentage of the transactions are checked in audit and Audit cannot escape

responsibility if significant deficiencies in the accounting systems and procedures lead to misuse or abuse of public monies. Though Audit cannot ensure against defalcation and frauds, the possibility of their occurrence should be duly kept in mind while preparing for and conducting audit.

(b) Sanction constituting local bodies ordinarily prescribe what classes of expenditure are to be admitted against them and who will be the controlling authority. The PAG/AG should see that the prescribed rules are followed in regard to receipts and expenditure and he should, for this purpose obtain sufficient information in respect of all items of the account in each case, either in the form of vouchers or in some other form as may be considered necessary.

(c). It is necessary to examine whether appropriate and adequate systems and procedures are in place for:

1. proper accountal of receipts, expenditure and assets;
2. monitoring of unrealized revenues and un-discharged liabilities;
3. general control over expenditure;
4. sanctions to expenditure, remission of revenues and transfer/ disposal of assets;
5. safe custody of cash, stores and other assets; and
6. purchases and conclusion of contracts.

It should then be examined whether:

- (i) the institutions have proper organizational arrangements for the discharge of accounting functions;
- (ii) responsibilities for the performance of all duties in relation to the accounting functions are clearly defined and specifically assigned to appropriately qualified staff; and
- (iii) the accounting system provides for:
 - efficient and economical management of the operations of the body and the resources entrusted to it;
 - proper monitoring of the activities by Government which has a substantial stake in it; and
 - a meaningful evaluation of its achievements and shortcomings by external agencies, including Audit.

(d) The audit of the accounts of non-commercial autonomous bodies entrusted to the Comptroller and Auditor General under the relevant Acts setting up these bodies should be conducted in accordance with the general principles and rules prescribed by him to regulate the audit of Government accounts, unless otherwise provided. The Board aim of Audit should be to ascertain how well these bodies are discharging their financial responsibilities and how far the funds placed at their disposal is utilized in fulfilment of the objects envisaged by Government. In this context it should be examined whether;

1. the objectives of the organization have been clearly defined and are in conformity with the Government's policies and decisions;
2. policies and programmes have been formulated in accordance with these objectives and are being implemented based on specific and well defined procedures;

3. systems exist for the collection of and collation of reliable progress reports on the implementation of policies and programmes;
4. progress is reported periodically to the Governing Body of the organization of Government and such reports are adequate, timely and accurate; and
5. Internal control mechanisms are adequate and effective.

(Auth: Paras 2.6.22 to 2.6.26 of M.S.O.(Audit) Second Edition-2002.)

The following aspects may be specifically kept in view during the preparation of draft Separate Audit Reports and the certification of annual accounts of the State Autonomous Bodies.

1. Accounting Policies: Organizations may be advised to append to annual accounts 'Significant Accounting Policies' and 'Notes to Accounts'. The former indicates items, if any, accounted for on cash basis, fixed assets and inventory valuation, etc. while the latter indicates non-applicability of Income Tax on the surplus of the organization, exemption from statutory enactments, treatment of contingent liabilities, etc. Such disclosures by the autonomous bodies will introduce transparency in accounts and any shortcoming in these aspects may be commented in the SAR.

2. Minus balances: Minus balances shown in the accounts require careful probe in audit. They sometimes foretell serious irregularities. Reasons for each minus balance should be examined and commented upon.

3. Suspense heads: The extent of amount in suspense heads and their relevance to the accuracy in accounts in as much as Suspense Accounts dilute the accuracy they may be examined and commented in SARs.

4. Fund Accounts: If fund accounts for different purposes are found in the autonomous body, then the relevant transactions of each fund being accounted for in the respective fund should be checked in audit. Mixing up of funds should be commented upon in the SAR and audit of each fund account should be done specifically to assess the accuracy of each fund account.

5. Depreciation and Capital assets: Even though in autonomous bodies there is no concept of "profit", it is the duty of audit while certifying the accounts, which includes the balance sheet, to mention the status of the assets in the context of depreciation due to usage, obsolescence, etc. Depreciation is not necessarily a charge on profits. They can be provided for either actually out of surplus generated by the autonomous bodies, as in the case of revenue earning Port Trusts, or be deducted from the value of assets of non-revenue earning organizations so as to provide a true and fair view of the assets of the autonomous bodies. Continued exhibition of assets at book value despite obsolescence, reduced value with corresponding capital entry gives a totally wrong picture about the assets of the organization. It is, therefore, essential and desirable that in supersession of instructions issued in 1982, in all such cases where the accounts indicate value on original cost, suitable comments should be made in the SAR wherever applicable on the following lines;

"The asset accounts depict book value of acquisition and do not exclude obsolescent, unusable, irreparable and condemned assets and also do not take into account

depreciation with corresponding reduction of capital account. Therefore, the capital and asset accounts are overstated accordingly thereby not giving the correct picture”.

If, however, the organization indicates in the “Notes to Accounts” that the depreciation for the assets has not been provided for and quantifies the amount no comment need be made by Audit on this point. It may, however, be ensured that the condition of the assets vis-à-vis the valuation is verified. A specific certificate from the organizations should be obtained that they are not holding any obsolete or unusable assets which should be cross checked with reference to corroborating records during the audit and comments included where necessary.

6. Accounting of transactions on accrual/cash basis and exhibition in Balance Sheet: The system of accounting is required to be on accrual basis so that Income and Expenditure Account and Balance Sheet make a meaningful depiction of the true and fair view of financial position of the organization. If any deviation is made from this basic principle, unless it is properly spelt out in the ‘Accounting Policies’ or ‘Notes to Accounts’, SAR should always have clear comment of this aspect in respect of all such items. The Autonomous Bodies should be advised to adhere to accrual principle for all transactions with only rare justified exceptions clearly revealed.

7. Cross checking of accounts with schedules: It has to be ensured in audit that all the schedules referred to in the accounts are correctly drawn up and figures shown therein tally with the accounts figures, as the schedules form part of the accounts certified by Audit.

8. Bank reconciliation: As also required in Headquarters' Circular No.52Rep (AB)/20-86 dated 25.2.1993, it has to be ensured that comments about arrears in bank reconciliation highlighting possibilities of misappropriation and frauds and the risks involved due to non-reconciliation/ delays in reconciliation and the procedural deficiencies and lapses are highlighted in the SARs. Wherever warranted, SAR should contain a clear comment that the bank/cash balances as revealed in the books of account could not be verified in Audit due to such non-reconciliation.

9. Revision of Accounts: In all cases where accounts are revised at the instance of audit, suitable comments about the impact of such revision may be made in the SARs as required in this office circular dated 16.1.1998 provided the substantial revision was effected due to our audit scrutiny.

10. Register of Assets: These should be carefully checked in the context of earlier comments on this subject and certification on physical verification of assets insisted upon so that non-availability of such certificates is commented upon in SAR.

11. Concise and brief comments: As the SARs are required to contain only “Comments on Accounts”, it should be ensured that the comments to be included in the SARs are concise and brief with a clear statement about impact on accounts of each comment as a result of deficient procedure/accounting followed. The SAR should convey only final comment and should not read like as an Inspection Report or draft para. The SAR should always say the resultant under/over statement of head concerned and impact on surplus/deficit/assets/ liabilities in exact amounts.

12. Unspent Grants: It is necessary that the organizations draw a distinction between annual maintenance/revenue grants and grants for specific/capital purposes. The unspent grants refundable/repayable to Government/other agencies, as may be required under the conditions stipulated in the grants are in fact distinctly shown as “returnable” in the liability side of the Balance Sheet of the autonomous bodies. Non-depiction of such unspent balances in the Balance Sheet should be commented in the SAR.

13. Realization of income due to the organization: It is necessary that income realized by an organization is accounted for as income in the Receipt and Payment Account/Income and Expenditure Account and is not allowed to be kept in a separate fund/account.

14. Completeness in Accounts: It should be ensured in audit that the accounts to be certified are complete in every respect and in cases where the accounts are voluminous, the organizations should be asked to suitably consolidate and index the annual accounts so that possibility of any accounts remaining out of the purview of audit is avoided. In order to ensure completeness and meaningful exhibition, all the three accounts, namely ‘Receipts & Payment Account’ ‘Income and Expenditure Account’ and ‘Balance Sheet’ with supporting schedules, ‘Significant Accounting Policies’ and ‘Notes to Accounts’ should come as a set to the audit to enable the auditor to check and certify these accounts. Incidentally figures should be reduced to a maximum of 5 digits for easy comprehension.

15. One of the main shortfalls in ensuring utilization of grants/loans for such purposes for which the grants/loans are given to Autonomous Bodies is non-production of such certificates to the Ministry/ Department/Government. While on one hand the accounts are purported to have accommodated such expenditure on revenue and capital heads and are certified by Audit, on the other hand Audit also list out that such certificates are yet to be received. This is like absence of physical verification certificate for assets exhibited in Accounts certified. Therefore, in future a distinct comment should be made in SARs that the assets/expenditure as exhibited in the current and previous year(s) accounts are not supported by utilization certificates for the specific amounts for which certificates are yet to be furnished to the Government.

(Auth: HQrs. LetterNo.111-Rep(AB)/49-99 dated 31-5-99)

16. Serious shortcomings in the internal control system must also find a place in the SAR. A brief note on the evaluation of internal controls of the Autonomous Bodies shall be invariably sent along with the draft SAR. to Headquarters.

(Authority: Para 4 of HQrs.LetterNo.77-Rep(AB)/63-2004 dt:5.4.2004)

7.10 Internal Control System of Autonomous bodies

Internal Control is a management tool used to provide reasonable assurance that management’s objectives viz. Reliability of financial reporting, Effectiveness and Efficiency of operations, Compliance with applicable laws and regulations, etc. are being achieved. While conducting the audit, the auditor should appraise the internal control in force before he plans out the detailed audit programme. CAG has desired that as a part of our audit of Autonomous Bodies we are required to make an assessment of the

effectiveness of the internal control arrangements in the Autonomous Bodies. Though the responsibility for the adequacy and effectiveness of the internal control structure rests with management of respective Autonomous Bodies, the responsibility of reviewing the internal control system including internal audit lies on us as we are the sole auditors. Appraisal of internal controls enables the auditor to restrict his detailed examination in areas where internal control is satisfactory and extends it in areas where internal control is weak. With weak internal controls and limited audit coverage many things could go wrong.

Evaluation of internal control can be made in a number of ways but the most effective and common method is through internal control questionnaire. In general, the control areas can be:

- Policies and procedures
- Scope and independence of internal audit
- Receipt and disbursement of cash
- Mixing of funds
- Purchase/custody of investments/securities
- Accounting and receipt of interest on investments/securities
- Fixed assets/vulnerable assets
- Disbursements/payables
- Payrolls/Loans and advances to the individuals
- Bank balances/Bank reconciliation
- Manpower analysis

For the purpose of evaluation of internal control, a standard form of questions may not be suitable to all Autonomous Bodies. Individual variations may have to be made to suit specific circumstances and activity of Autonomous Bodies.

(Auth: No.77-Rep(AB)/63-2004 dated: 5-4-2004 of HQrs. Office)

7.11 Format of Separate Audit Report

Comments to be included need not be comparative statements but should be concise and brief with a clear statement about impact on accounts of each comment as a result of deficient procedure/ accounting practice followed. Comments should be pointed and indicate in exact amounts the resultant under/overstatement of head concerned and the impact on income/expenditure/excess of income/ expenditure/income as well as on assets/liabilities.

Audit comments on accounts can be included as sub-paras at one place under this para depending upon defects noticed and the sub-paras may be arranged suitably one after another in the order of Form of Annual Accounts being certified.

Introduction

1. Comments on Accounts

2. Balance Sheet

2.1 Liabilities: Deficiencies noticed against various head may be commented in short sub-paras.

2.2 Assets: Deficiencies noticed against various heads may be commented in short sub-paras.

3. Income and Expenditure Account

3.1 Expenditure: Deficiencies noticed against various head may be commented in short sub-paras.

3.2 Income: Deficiencies noticed against various heads may be commented in short sub-paras.

3.3 Excess of Income/Expenditure over Expenditure/Income

4. Receipt and Payment

4.1 Receipts

4.2 Payments

5. General

Accounting Policies and Notes to Accounts

Brief comments about deficiencies noticed in accounting policies, notes on accounts, suitable disclosures not given on matters concerning accounts may be included.

6. Effect of Audit Comments on Accounts

The net impact of the comments given in preceding paras is that assets as on _____ were understated/overstated by ₹_____ lakh, liabilities understated/overstated by ₹_____ lakh, and Excess Income/ Expenditure over Expenditure/Income for the year was understated/ overstated by. ₹ _____ lakh.

7. Lack of response

(If replies to draft SAR are not received within the stipulated period).

(Authority No.40-Rep(AB)/91-2003 dt: 25.2.2004)

7.12 Examination of draft SAR

After receiving the draft SAR from concerned Sections, the Technical Cell (earlier OAD –IV) should examine of draft SAR and see the following:

- (1) Whether the report has been drafted as per Style Guide issued by the CAG
- (2) All points relating to accounts have been commented in the Draft SAR
- (3) All points relating to transactions have been commented in the draft Inspection Report and the draft Inspection Report has been discussed with the body and the fact recorded
- (4) Whether audit certificate have been prepared as per guidelines issued by the CAG.

CAG has revised (March 2010) the format of Audit Certificate in all cases of accounts to be certified. (a specimen given in *Annexure-IV* to this Chapter)

(Authority: Para no. 9.02 of Manual of Instruction for Audit of Autonomlous Bodies Volume I), 2010)

- (5). Whether a Brief Note on Internal Control submitted as required in CAG's Circular Dated 5-2-2004.
- (6) Whether key linking figures are submitted,
- (7) Working sheet showing net impact of audit comments,
- (8) Whether all the Audit Enquiries and replies are received, Title sheet enclosed, other statutory documents such as Minutes of Entry meeting, Minutes of Exit meeting, Individual Work profiles, tour diaries, etc. are received.

- (9) Whether the annual accounts have been inscribed with the certificate that the arithmetical accuracy and previous years figures shown have been checked over the signature of the Inspecting Officer.
- (10) As per letter No. 39/Rep(AB) 91-2003 dated 3-4-2006 of CAG a 'Management Letter' has to be issued to the Chief Executive Officer of the Body. Party has to prepare this letter and submit along with the Draft SAR. (A specimen given in the *Annexure-V* to this Chapter)
- (11) Statement of working days, leave, transit etc. for calculation of claim for audit fees
The party and officer are to be relieved after the above checks are completed.

7.13 Editing by section

- (a) The comments made in the draft Audit Report should be checked by the auditor. All formalities such as page numbering, marking of AEs and replies, noting the names of persons who took the para etc should be followed. The draft Separate Audit Report should be submitted to the Branch Officer within 2 days of receipt of draft SAR from the Party. Branch Officer should submit the DSAR after his scrutiny in 2 days and DSAR should be sent after approval by Sr. DAG/DAG to PAG/AG (Audit-I).
- (b) The following documents should be submitted to the PAG/AG along with the Draft SAR.
- i) Note seeking approval of PAG/AG for the DSAR containing the details of party audited and supervising officer.
 - ii) Draft letter to the Body forwarding the draft SAR requesting to furnish reply within 15 days of receipt of the Draft SAR
 - iii) Management letter as prescribed in CAG's letter No.77-Rep(AB)/67-2004 dated 5-4-2006.
 - iv) Draft SAR and Draft Audit Certificate as edited and approved by the Sr. DAG/DAG AMG-I (Audit Enquiries and Replies duly referenced)
 - v) Audit Enquiries and Replies
 - vi) Key linking figures
 - vii) Brief Note on Internal Control Mechanism
 - viii) Net Impact of Audit Comments.
 - ix) Acts and Rules of the Autonomous Body.
 - x) Previous year's Audit Report and Certificate.
- (c) When the draft Audit Report is received back after approval by PAG/AG, the same should be forwarded to the Authority/Body to verify the comments and to furnish reply within 15 days of the receipt of the draft report. Draft Audit Certificate should not be issued to the body at this stage.
- (d) SAR of the following bodies should be submitted to CAG for vetting before issue to the Body.
1. Gujarat Real Estate Regulatory Authority, Gandhinagar
 2. Gujarat Housing Board, Ahmedabad
 3. Gujarat Slum Clearance Board, Ahmedabad.
 4. Gujarat Rural Housing Board, Gandhinagar
 5. Gujarat Municipal Finance Board, Gandhinagar

Note: Draft SAR of the Autonomous Bodies accounts of which is in arrears for three or more years are not liable for submission of SARs to HQr office for pre approval. (Authority: Para 10.03 of Manual of Instructions for Audit of Autonomous Bodies, 2010) Draft SARs of the bodies are not required to be sent to CAG for vetting is given in ***Annexure-VI***.

- (e) Audit Reports of any new institution should be sent to CAG for the first 2 years and thereafter according to the Grant received / expenditure incurred.
- (f) If the reply to the draft Audit Report is received within the stipulated period, an aide memoire should be prepared in the following format.

Sl. No	Comments as per Audit Report	Reply of the Body/Authority	Remarks. (If the reply is acceptable, the para may be deleted. If not, para may remain. If any modification is to be made in the DSAR, that may be mentioned)
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(g) If the replies are received in time, the Draft Audit Report, Aide-memoire, AEs and Replies, letter to the Body, should be submitted to the AG/PAG for approval and submission to the CAG for vetting. One copy of the annual accounts should also be forwarded to the CAG.

(h) The CAG has directed that since the work of certification of annual accounts and issue of SARs is required to be completed in a time-bound manner, it should be ensured that the documents to be sent along with the draft SAR are complete in every respect and following documents are invariably sent:

- a. Two copies of draft SAR along with aide-memoire and key linking the figures;
- b. Two copies of draft audit certificates proposed to be issued;
- c. One copy of annual accounts to be certified by the office
- d. Proforma showing progress of audit, etc.
- e. Brief Note on Internal Control
- f. Net Impact of Audit Comments
- g. Key Linking Figures
- h. Minutes of the Autonomous Body approving the annual accounts.
- i. Draft of the Management letter to the Chief Executive of the Body.
- j. Checklist

(i) If the replies are not received within the stipulated time of 15 days, the draft SAR may be treated as acceptable to the Body and the draft SAR sent to CAG for vetting through PAG/AG as described above. If the draft SAR is not required to be sent to CAG, the draft SAR may be issued as final AR with audit certificate by PAG/AG.

(j) When the draft audit reports sent to the CAG's Office for vetting is received back, corrections/ suggestions pointed out by the CAG have to be carried out and final SAR with Audit Certificate issued to the Board /Authority with certified annual accounts. The letter should contain direction to place the Audit Report and Certificate before the State Legislature after approval by the Governing Body of the Board /Authority without delay and to intimate this office the dates of approval by the Governing Body and of placing in

the State Legislature. Simultaneously, a copy of final report and Audit Certificate should be sent to CAG's office with the Proforma and Annotation.

(k) When the previous audit reports are not placed on the Table of the Legislature, the CAG insists that the present Audit Report may be released only on getting an assurance from the Government that the present report will be placed along with the previous report(s) on the Table of the Legislature.

(l) When Government intimates the date of placing of the Audit Report on the Table of The Legislature, the date is noted in the Progress Register.

7.14 Inspection Reports

Points detected in transaction audit should be issued as an Inspection Report. The Inspection Report and the paras are noted in the Inspection Report Settlement Register of concerned AMG groups for watching their clearance.

7.15 Audit Fees

When the audit is completed and Audit Report/Audit Certificate issued, a demand for audit fees should be raised against the Autonomous Body. The concerned Sr. DAG/DAG of AMG Groups is issuing Circulars fixing the daily rates of audit fees of staff (Vide *Annexure-II* to the Chapter-I) The Audit fee is calculated based on the details furnished by the Party adopting the rates circulated by the concerned Sr. DAG/DAG of AMG Groups. The statement thus prepared is sent to PAG/AG for approval through ITA. When the statements are received back after checking by ITA and approval by PAG/AG, demand is raised in the form of a letter to the Autonomous Body requesting to remit the amount to the Pay and Accounts Officer (A&E), Office of the PAG/AG (Audit-I), Rajkot by Demand Draft. Copies of the letter are endorsed to the Sr. Audit Officer (Admn) O/o PAG/AG (Audit-I) and The Pay and Accounts Officer, O/o AG (A&E).

The demand raised is noted in the Register of watching recovery of cost of audit (*Form-V*). When the daily rates are revised retrospectively, supplementary demands are raised following the procedure mentioned in the above paragraph. When the Autonomous Body remits the amount to the PAO, and informs this office about the remittance, the PAO is addressed to confirm the remittance. When confirmation is received from the PAO, the item in the Register is cleared.

Annexure-I
(Referred to in Paragraph 7.02)

List of Autonomous Bodies till August 2021

Sr.no.	Autonomous Body	Department	Wing
1	A. R. College of Pharmacy & G. H. Patel Institute of Pharmacy, P. B. No. 19, Vallabh Vidyanagar - 388120.	Education Department	AMG-I
2	Adult Training Centre (Trust) for Blind, Vastrapur, Ahmedabad - 380015.	Social Justice & Empowerment Department	AMG-I
3	AIDS Control Society, Behind Lal Bunglow, Near Navrangpura Telephone Exchange, C. G. Road, Ahmedabad - 380009.	Health & Family Welfare Department	AMG-I
4	Akshar Purushottam Arogya Mandir (Muni Seva Ashram), Taluka-Vaghodia, Post-Goraj, Vadodara.	Health & Family Welfare Department	AMG-I
5	Anand Homoeopathic Medical College & Research Institute, Near Sardar Baug, Bhalej Road, Anand - 388001.	Health & Family Welfare Department	AMG-I
6	Andh Apang Kalyan Kendra, Ghatlodia, Ahmedabad - 380061.	Social Justice & Empowerment Department	AMG-I
7	Andh Kanya Prakash Gruh, Ahmedabad - 380052.	Social Justice & Empowerment Department	AMG-I
8	Apang Manav Mandal, Vastrapur Road, Ahmedabad - 380015.	Social Justice & Empowerment Department	AMG-I
9	B. M. Institute of Mental Health, Near Nehru Bridge, Ashram Road, Ahmedabad - 380009.	Social Justice & Empowerment Department	AMG-I
10	B. S. Nathwani T. B. Hospital, Akshaygadh, Taluka Keshod, Junagadh.	Health & Family Welfare Department	AMG-I
11	B. V. Patel Pharmaceutical Education Research Development (PERD) Centre, Thaltej, Gandhinagar Highway, Ahmedabad - 380054.	Education Department	AMG-I
12	Bala Hanuman Ayurved Maha vidalaya, At & PO Lodra, Taluka Masa, Gandhinagar - 382835.	Education Department	AMG-I
13	Bhagubhai Mafatlal Hospital (Sevashram), Bharuch.	Health & Family Welfare Department	AMG-I
14	Bhagwat Vidyapith Ashok ITI, Krishnadham, Sola, Ahmedabad - 380060.	Labour & Employment Department	AMG-I
15	Bhailalbai & Bhikhabhai Institute of Technology, P. B. No. 3, Vallabh Vidyanagar - 388120.	Education Department	AMG-I
16	Bhavan's Shri C. T. Sutaria ITI, Dakor, Taluka Thasra, Dist Kheda - 388225.	Labour & Employment Department	AMG-I
17	Bhavan's Shri Swaminarayan Technical Institute, Dakor, Taluka Thasra, Dist Kheda - 388225.	Education Department	AMG-I
18	Bhavnagar University, Sardar Vallabhbhai Patel Campus, Bhavnagar -364001.	Education Department	AMG-I
19	Birla Vishwakarma Mahavidalaya Engineering College, Vallabh Vidyanagar - 388620.	Education Department	AMG-I
20	Blind Welfare Council, P. B. No. 115, Dahod - 389151.	Social Justice & Empowerment Department	AMG-I

21	Blind Men's/People Association, Jagdish Patel Chowk, Surdas Marg, Vastrapur, Ahmedabad - 380015.	Social Justice & Empowerment Department	AMG-I
22	C. L. Patel Technical Institute, Pij, Taluka Nadiad, Dist Kheda - 387230.	Education Department	AMG-I
23	C. U. Shah T. B. Hospital, Dudhrej Road, Surendra nagar - 363001.	Health & Family Welfare Department	AMG-I
24	Cambay General Hospital, Khambhat - 388620.	Health & Family Welfare Department	AMG-I
25	Centre for Social Studies, Veer Narmad South Gujarat University Campus, Udhna-Magdalla Road, Surat - 395007.	Education Department	AMG-I
26	Chikhli Education Society, ITC P. B. No. 21, Chikhali - 369521.	Labour & Employment Department	AMG-I
27	Children's University, Subhashchandra Bose Shikshan Sankul, Sector 20, Gandhinagar - 382020.	Education Department	AMG-I
28	Chimanlal Nagindas Technical Centre, Ahmedabad - 380006.	Education Department	AMG-I
29	D. S. Patel Technical Institute, Sunav, Taluka Petlad, , Dist Anand.	Education Department	AMG-I
30	Development Support Agency of Gujarat, Tribal Development Department, Birsa Munda Bhavan, Sector-10A, Gandhinagar - 382010.	Tribal Development Department	AMG-I
31	Dharmsinh Desai Institute of Technology, College Road, Nadiad - 387001.	Education Department	AMG-I
32	Disable Welfare Trust of India, Unara, Surat - 395007.	Social Justice & Empowerment Department	AMG-I
33	Dr. Dayaram Patel Pharmacy College, Bardoli, Surat - 394601.	Education Department	AMG-I
34	Dr. Rasiklal Shah Sarvajanic Hospital, Sabarkantha - 383315.	Health & Family Welfare Department	AMG-I
35	Dr. V. H. Dave Homoeopathic Medical College & Hospital, Heinemann House, Amul Dairy Road, Anand - 388001.	Education Department	AMG-I
36	Employment Extension Bureau, Block No. 1, 3rd Floor, Old Sachivalaya, Gandhinagar.	Labour & Employment Department	AMG-I
37	G. K. General Hospital Society, Hospital Road, Bhuj, Dist Kutchh - 370001.	Health & Family Welfare Department	AMG-I
38	Gandhi Lincoln Hospital, Near Municipal Garden, Deesa - 385535.	Health & Family Welfare Department	AMG-I
39	GIA (Grant in Aid) Industrial Training Centre, Morva-Rena, Panchmahal.	Labour & Employment Department	AMG-I
40	Gujarat Ayurved University, Chanakya Bhavan, Jamnagar - 361008.	Education Department	AMG-I
41	Gujarat Backward Classes Development Corporation, Block No. 11, 3rd Floor, Dr. Jivraj Mehta Bhavan, Gandhinagar - 382010.	Social Justice & Empowerment Department	AMG-I
42	Gujarat Cancer & Research Centre, Civil Hospital Campus, Asarwa, Ahmedabad.	Health & Family Welfare Department	AMG-I

43	Gujarat Council of Education Research & Technology, Vidya Bhavan, Sector 12, Gandhinagar.	Education Department	AMG-I
44	Gujarat Council of Elementary (Primary) Education, Sarva Shiksha Abhiyan mission (SSA), Sector 17, Gandhinagar.	Education Department	AMG-I
45	Gujarat Council of Secondary Education, 1st Floor, Commissionerate of Schools, Block No. 9, Sector 10, Gandhinagar - 382010.	Education Department	AMG-I
46	Gujarat Council of Vocational Training, Block No. 1, 2nd Floor, Dr. Jivraj Mehta Bhavan, Gandhinagar - 382011.	Labour & Employment Department	AMG-I
47	Gujarat Homoeopathic Medical College, Savli, Dist. Vadodara.	Education Department	AMG-I
48	Gujarat Institute of Educational Technology, 132 ft. Ring Road, Helmet Circle, Opp. AMTS Workshop, Navrangpura, Ahmedabad.	Education Department	AMG-I
49	Gujarat Knowledge Society, Directorate of Technical Education, Block No. 2, 3rd Floor, Dr. Jivraj Mehta Bhavan, Gandhinagar - 382010.	Education Department	AMG-I
50	Gujarat Medical Education and Research Society, Gandhinagar.	Health & Family Welfare Department	AMG-I
51	Gujarat Medicinal Plants Board, Block No. 7, 8th Floor, Sachivalaya, Gandhinagar.	Health & Family Welfare Department	AMG-I
52	Gujarat Rural Workers Welfare Board, Block No. 6, 3rd Floor, Dr. Jivraj Mehta Bhavan, Gandhinagar - 382010.	Labour & Employment Department	AMG-I
53	Gujarat Scheduled Castes Development Corporation, Block No. 10, 2nd Floor, Dr. Jivraj Mehta Bhavan, Gandhinagar - 382010.	Social Justice & Empowerment Department	AMG-I
54	Gujarat School Quality Accreditation Council, Gandhinagar.	Education Department	AMG-I
55	Gujarat State AIDS Control Society, New Mental Hospital Compound, Meghaninagar, Ahmedabad - 380016.	Health & Family Welfare Department	AMG-I
56	Gujarat State Board of School Text Books, Vidyadan, Sector 10/A, Gandhinagar.	Education Department	AMG-I
57	Gujarat State Child Protection Society, Birsa Munda Bhavan, Sector 10, Gandhinagar.	Social Justice & Empowerment Department	AMG-I
58	Gujarat State Council for Blood Transfusion, O-1 Block, New Mental Hospital Complex, Meghaninagar, Ahmedabad - 380016.	Health & Family Welfare Department	AMG-I
59	Gujarat State Social Welfare Board, 21, Ashok Nagar Society, Sarkhej Road, Near Bhatta, Ahmedabad - 380007.	Social Justice & Empowerment Department	AMG-I
60	Gujarat State Tribal Development Residential Educational Institutions Society, Birsa Munda Bhavan, Sector 10/A, Gandhinagar - 382010.	Tribal Development Department	AMG-I
61	Gujarat Technological University, Navrangpura, Ahmedabad - 380015.	Education Department	AMG-I
62	Gujarat Tribal Development Corporation, Birsa Munda Bhavan, Ground Floor, Sector 10/A, Gandhinagar - 382010.	Tribal Development Department	AMG-I
63	Gujarat University, Ahmedabad - 380009.	Education Department	AMG-I
64	Gujarat Secondary and Higher Secondary Education Board, Gandhinagar.	Education Department	AMG-I

65	Gurjareshwar Kumarpal Jain Sarvoday Technical Institute, Dabhoi, Dist Vadodara - 391110.	Labour & Employment Department	AMG-I
66	Hemchandracharya North Gujarat University, Post Box No. 21, University Road, Patan - 384265.	Education Department	AMG-I
67	Indian Institute of Teacher's Education, Kh Road, Sector 15, Gandhinagar.	Education Department	AMG-I
68	Institute of Kidney Diseases & Research Centre (IKDRC), Ahmedabad.	Health & Family Welfare Department	AMG-I
69	Institute for Post Graduate Teaching & Research in Ayurveda (IPGTRA), Chanakya Bhavan, Jamnagar - 361008.	Education Department	AMG-I
70	International Centre for Entrepreneurship and Career Development, Ahmedabad - 380058.	Education Department	AMG-I
71	ITI College, Vardhari, Lunawala.	Labour & Employment Department	AMG-I
72	Jan Shikshan Sansthan, Rander, Surat - 395009.	Education Department	AMG-I
73	Janak Smarak Hospital, Vyara, District - Tapi - 394650.	Health & Family Welfare Department	AMG-I
74	K. J. Mehta T. B. Hospital, Songadh Amargarh, Taluka Sihor, Bhavnagar - 364210.	Health & Family Welfare Department	AMG-I
75	K. V. Patel ITI, Chansama-Patan Road, Chansama, Patan - 384220.	Labour & Employment Department	AMG-I
76	Knowledge Consortium of Gujarat, Ahmedabad - 380015.	Education Department	AMG-I
77	Krantiguru Shyamji Krishna Verma Kutch University (Kachchh University), Mundra Road, Bhuj- Kachchh - 370001.	Education Department	AMG-I
78	Kacheria Mojilal Gordhanda's General Hospital, Balasinor, Kheda - 388255.	Health & Family Welfare Department	AMG-I
79	L. M. College of Pharmacy, P. B. No. 4011, Opp. Gujarat University, Navrangpura, Ahmedabad.	Education Department	AMG-I
80	Lions Cancer Detection Centre Trust, P. B. No. 20, Govt. Medical College Campus, Majura Gate, Surat - 395001.	Health & Family Welfare Department	AMG-I
81	M. N. College of Pharmacy, Khambhat, Dist Anand - 388620.	Education Department	AMG-I
82	Maharaja Sayajirao University, Fatehgunj, Vadodara - 390002.	Education Department	AMG-I
83	Mahatma Gandhi Labour Institute, Drive-in-Road, Ahmedabad - 380052.	Labour & Employment Department	AMG-I
84	Mandvi Taluka Kshaya Nivaran Sangh, (T. B. Association), T. B. Clinic Compound, Maska, Taluka Mandvi, Kutch - 370466.	Health & Family Welfare Department	AMG-I
85	Maniben Pithawala ITI, Navyug College Campus, Rander Road, Surat.	Labour & Employment Department	AMG-I
86	Medical College Development Committee, Government Medical College, Outside Majura Gate, Surat - 395001.	Health & Family Welfare Department	AMG-I
87	Medical College Development Society, SSG Hospital Campus, Roupura, Vadodara - 390001.	Health & Family Welfare Department	AMG-I

88	Methodist Technical Institute, Sama Road, Vadodara - 390008.	Education Department	AMG-I
89	Narayan Eye Hospital, Arogya Dham Sanchalit, PO: Tajpura, Ta: Halol, Dist: Panchmahal - 389350.	Health & Family Welfare Department	AMG-I
90	O. H. Nazar Ayurved Mahavidyalaya and Ayurved Hospital, Lal Darwaja Road, Surat - 395003.	Education Department	AMG-I
91	P. D. Malaviya College of Commerce, PDM Chowk, Rajkot - 360004.	Education Department	AMG-I
92	R. B. Patel Technical Institute, At & Post Satem, Taluka & Dist Navsari - 396466.	Education Department	AMG-I
93	R. K. Technical (ITI) Sunav, Taluka Petlad, Dist Anand - 388470.	Labour & Employment Department	AMG-I
94	R. K. Patel Technical Institute, Station Road, Vaso, Taluka Nadiad, Dist Kheda - 387380.	Education Department	AMG-I
95	Rajesh Mehta Technical School for the Blind, C/o Blind People's Association (India), Jagdish Patel Chowk, Surdas Marg, Vastrapur, Ahmedabad - 380015.	Social Justice & Empowerment Department	AMG-I
96	Ravishankar Maharaj Eye Hospital, Gujarat Blind Relief & Health Association, Chikhodra, Anand - 388320.	Health & Family Welfare Department	AMG-I
97	Revabai General Hospital, Sardhav, Gandhinagar - 382640.	Health & Family Welfare Department	AMG-I
98	Rogi Kalyan Samiti, D-2, Civil Hospital, Asarwa, Ahmedabad.	Health & Family Welfare Department	AMG-I
99	Rogi Kalyan Samiti, Government Spine Institute & Physiotherapy College, New Civil Hospital, Ahmedabad - 380016.	Health & Family Welfare Department	AMG-I
100	Rogi Kalyan Samiti, Guru Gobindsinh Government Hospital, Pandit Nehru Marg, Jamnagar - 361008.	Health & Family Welfare Department	AMG-I
101	Rogi Kalyan Samiti, New Civil Hospital, Majura Gate, Surat - 395001.	Health & Family Welfare Department	AMG-I
102	Rogi Kalyan Samiti, Pandit Deendayal Upadhyay Medical College & Hospital, Rajkot - 360001.	Health & Family Welfare Department	AMG-I
103	Rogi Kalyan Samiti, Sir T General Hospital, Klanla, Bhavnagar - 364001.	Health & Family Welfare Department	AMG-I
104	S. K. Patel Industrial Training Institute, Sarva Vidyalaya Campus, Kadi, Mahesana - 382715.	Labour & Employment Department	AMG-I
105	Sanjivani Hospital, At & Post Chalthan, Dist Surat - 394305.	Health & Family Welfare Department	AMG-I
106	Sardar Patel Institute of Economic & Social Research, Thaltej Road, , Ahmedabad - 380054.	Education Department	AMG-I
107	Sardar Smarak Hospital, Bardoli, Surat - 394602.	Health & Family Welfare Department	AMG-I
108	Sardar Patel University, P. B. No. 10, Vallabh Vidhyanagar, Anand - 388120.	Education Department	AMG-I
109	Smt. S.C. & Sheth D.M. Sarvajanic Hospital & Maternity Home, Gozaria, Dist Mahesana - 382825.	Health & Family Welfare Department	AMG-I
110	School for Deaf - Mutes Society, Ashram Road, Ahmedabad - 380009.	Social Justice & Empowerment Department	AMG-I

111	School of Architecture, CEPT University, Ahmedabad - 380009.	Education Department	AMG-I
112	School of Building Science & Technology, CEPT University, Ahmedabad - 380009.	Education Department	AMG-I
113	School of Interior Design, CEPT University, Ahmedabad - 380009.	Education Department	AMG-I
114	School of Planning, CEPT University, Ahmedabad - 380009.	Education Department	AMG-I
115	Sentinal Surveillance Unit, Majura Gate, Surat - 395001.	Health & Family Welfare Department	AMG-I
116	Seth J. B. Upadhyaya Deaf - Mute School, Taluka Talod, Dist Sabarkantha - 383215.	Social Justice & Empowerment Department	AMG-I
117	Seth Vadilal Sarabhai General Hospital & Seth China i Maternity Hospital, Ahmedabad - 380006.	Health & Family Welfare Department	AMG-I
118	Shamlaji Hospital, CHC Shamlaji, Taluka Bhiloda, Dist Arvalli - 383355.	Health & Family Welfare Department	AMG-I
119	Shanti Lal Shah College of Pharmacy, Bhavnagar.	Education Department	AMG-I
120	Sharda School for the Mentally Retarded Children, Ashram Road, Ahmedabad - 380009.	Social Justice & Empowerment Department	AMG-I
121	Shivanand Mission, Saurashtra Central Hospital, Virnagar, Rajkot - 360060.	Health & Family Welfare Department	AMG-I
122	Shri Kathiawar Nirashrit Balashram, Malviya Road, Rajkot.	Social Justice & Empowerment Department	AMG-I
123	Shri Pragna Chakshu Mahila Sevakunj, Taluka Wadhwan, Dist Surendranagar - 363020.	Health & Family Welfare Department	AMG-I
124	Shrimant Fatehsinh Rao Gaekwad General Hospital, Vatrak, Taluka Bayad, Dist Sabarkantha - 383326.	Health & Family Welfare Department	AMG-I
125	Smt. B. H. Shah (Karjanwala) Industrial Training Institute, Kamrej Char Rasta, Surat - 394185.	Labour & Employment Department	AMG-I
126	Smt. A. J. Savla Homoeopathic Medical College & Research Institute, Pooja Building, Near Municipal Ground, Haidari Chowk, Mahesana - 384001.	Health & Family Welfare Department	AMG-I
127	Society for Education Welfare & Action (Rural), Jhagadia, Dist Bharuch - 393110.	Social Justice & Empowerment Department	AMG-I
128	Saurashtra University, University Road, Rajkot - 360005.	Education Department	AMG-I
129	State Health Society, Commissionerate of Health, Medical Services and Medical Education, Dr. Jivraj Mehta Bhavan, Block No. 5, 2nd Floor, Old Sachivalaya, Gandhinagar - 382010.	Health & Family Welfare Department	AMG-I
130	State Literacy Mission Authority (SLMA), O/o the Director of Literacy & Continuous Education, 12, Dr. Jivraj Mehta Bhavan, Gandhinagar.	Education Department	AMG-I
131	Tolani Foundation Gandhidam Polytechnic, Adipur, Kutch - 370205.	Education Department	AMG-I
132	Tribal Research & Training Institute, Gujarat Vidyapith, Ahmedabad - 380014.	Tribal Development Department	AMG-I

133	Trimurti Hospital, Bavla, Ahmedabad - 382220.	Health & Family Welfare Department	AMG-I
134	U. N. Mehta Institute of Cardiology and Research Centre, Civil Hospital, Asarwa, Ahmedabad - 380016.	Health & Family Welfare Department	AMG-I
135	Unorganised Labour Welfare Board (Except Agriculture Labour), Udhog Bhavan, Gandhinagar.	Labour & Employment Department	AMG-I
136	Veer Narmad South Gujarat University, University Campus, Surat - 395007.	Education Department	AMG-I
137	Veraval People's Co. Op. Bank Ltd., Bhalka Road, Veraval - 362265.	Labour & Employment Department	AMG-I
138	Vitthalbhai Patel & Rajratna P. T. Patel Science College, Vallabh Vidyanagar, Anand - 388120.	Education Department	AMG-I
139	Xavier Technical Institute, Sevasi, Vadodara - 391101.	Education Department	AMG-I
140	Gujarat Skill Development Society, Gandhinagar	Labour & Employment Department	AMG-I
141	Gujarat State Social Security Board, Gandhinagar	Labour & Employment Department	AMG-I
142	Society for creation of Opportunity through Proficiency in English (SCOPE), Ahmedabad	Education Department	AMG-I
143	Shree Gathani General Jain Hospital, Visavadar	Health & Family Welfare Department	AMG-I
144	Samjulaxmi Maternity Hospital, Pij Bhagol, Nadiad	Health & Family Welfare Department	AMG-I
145	Shree Somnath Sanskrit University, Rajendra Bhuvan Road, Veraval- 362266 dist Gir- Somnath (Gujarat)	Education Department	AMG-I
146	Shree Somabhai J. Patel Sarvajnik Hospital, Paliad Ta. Kalol, Dist : Gandhinagar- 382735	Health & Family Welfare Department	AMG-I
147	Shree Bhogilal Mohanlal Bhatt General Hospital, Village : Veda Via Nardipur Taluka: Kalol, Dist: Gandhinagar, Pin 382735	Health & Family Welfare Department	AMG-I
148	Smt. Savitaben Ramanlal Dahyalal Shah Sarvaja nik Hospital & Prashutigruh, AT. & Po. Ambasan, Ta. & Dist.: Mehsana - 384435	Health & Family Welfare Department	AMG-I
149	Kaka-Ba Hospital, Block no. 33, Uttraj Village, Hansot 393030, Dist.: Bharuch, Gujarat	Health & Family Welfare Department	AMG-I
150	Kashiben Gordhandas Patel Chilren Hospital, Surajben Gordhanbhai Patel Women's Hospital (Medical Care Centre Trust), Jalaram Marg, Karelibaug, Vadodara - 390018	Health & Family Welfare Department	AMG-I
151	Indian Red Cross Society (Champaben Chudgar Blood Foundatin, Sheth Kanaiyalal Blood Bank), J.L. Thakore Red Cross Bhavan 18, Gujarat Brahmakshatriya Society, Behind Suvidha Shopping Center, Paldi Ahmedabad - 380007	Health & Family Welfare Department	AMG-I
152	Gujarat Council of School Education (Samagra Shiksha Abhiyan(EE,SE,TE)), Sector - 17, Gandhinagar, Gujarat	Education Department	AMG-I
153	Gujarat Landless Labourers & Halpati Housing Board, Block No. 11, 3rd Floor, Old Sachivalaya, Gandhinagar - 382010.	Panchayats, Rural Development & Rural Housing Department	AMG-II
154	Gujarat State Watershed Management Agency (GSWMA), Commissionerate of Rural Development, Block No. 16, Dr. Jivraj Mehta Bhavan, Gandhinagar.	Panchayats, Rural Development & Rural Housing Department	AMG-II

155	Gujarat Urban Development Mission, Gandhinagar - 382010.	Urban Development & Urban Housing Department	AMG-II
156	Gujarat Pavitra Yatra Dham Vikas Board, Block No. 6, 2nd Floor, Dr. Jivraj Mehta Bhavan, Gandhinagar.	Sports, Youth & Cultural Activities Department	AMG-III
157	Gujarat Sahitya Academy, Abhilekhar Bhavan, Opp. Gulab Udhan, Sector 17, Gandhinagar.	Sports, Youth & Cultural Activities Department	AMG-III
158	Gujarat State Lalit Kala Academy, Ravishankar Raval Kala Bhavan, Near Law Garden, Bhaikaka Hall, Opp. Ellis Bridge, Ahmedabad - 380006.	Sports, Youth & Cultural Activities Department	AMG-III
159	Gujarat State Sangeet Natak Academy, Block No. 9, 1st Floor, Dr. Jivraj Mehta Bhavan, Gandhinagar - 382010.	Sports, Youth & Cultural Activities Department	AMG-III
160	Gujarat Water Supply & Sewerage Board (GWSSB), Jal-Seva Bhavan, Sector 10A, Gandhinagar - 382010.	Water Supply Department	AMG-III
161	Sabarmati Ashram Preservation & Memorial Trust, Gandhi Smarak, Ahmedabad - 380027.	Sports, Youth & Cultural Activities Department	AMG-III
162	Sardar Vallabhbhai Patel Memorial Society, Shahibaug, Ahmedabad - 380004.	Sports, Youth & Cultural Activities Department	AMG-III
163	Sports Authority of Gujarat, Gandhinagar.	Sports, Youth & Cultural Activities Department	AMG-III
164	Water and Land Management Institute, (Gujarat Irrigation Management Society), P. B. No. 80, Anand - 388001.	Water Supply Department	AMG-III
165	Junagadh Agriculture University, University Bhavan, Opp, Moti Baug, Junagadh, Gujarat 362001	Agriculture & Co-operative	AMG-III
166	Navsari Agriculture University, Dandi Rd, Erugam, Navsari, Gujarat 396450	Agriculture & Co-operative	AMG-III
167	Sardar Krushinagar Agriculture University, NH 8, Sardarkrushinagar, Dantiwada Taluka, Banaskantha District, Satsan, Gujarat 385506 Phone: 02748 278 226	Agriculture & Co-operative	AMG-III
168	Anand Agricultural University, Anand	Agriculture & Co-operative	AMG-III
169	Gujarat Social Infrastructure Development Society (GSIDS), Directorate of Economics & Statistics, Near Police Bhavan, Sector 18, Gandhinagar - 382009.	Urban Development & Urban Housing Department	AMG-II
170	Gauseva Ayog Gandhinagar, Gandhinagar	Agriculture and Co-operative Department	AMG-III
171	Gujarat Horticulture Mission Gandhinagar	Agriculture and Co-operative Department	AMG-III
172	Gujarat Livestock Development Board, Gandhinagar	Agriculture and Co-operative Department	AMG-III

Note:- Besides 172 Autonomous Bodies of Under Section 14, 33 District Rural Development Agencies (DRDAs) are also existed under Panchayat Rural Housing & Rural Development Department under jurisdiction of AMG-II Groups.

Annexure-II
(Referred to in Paragraph 7.02)
List of Autonomous Bodies

Sr. No.	Name of AB	Department	Groups
Under Section 19(2)			
1.	Gujarat Building and Other Construction Workers Welfare Board, Ahmedabad	Labour & Employment Department	AMG-I
2.	Gujarat Real Estate Regulatory Authority, Gandhinagar	Urban Development & Urban Housing	AMG-II
3.	Gujarat State Fund for person with Disabilities**	Social Justice & Empowerment Department	AMG-I
Under Section 19(3)			
4.	Gujarat Rural Housing Board, Gandhinagar	Panchayat, Rural Housing and Rural Development	AMG-II
5.	Gujarat Housing Board, Ahmedabad	Urban Development & Urban Housing	
6.	Gujarat Slum Clearance Board, Ahmedabad.	Urban Development & Urban Housing	
Under Section 20(1)			
7.	Ahmedabad Urban Development Authority, Ahmedabad.	Urban Development & Urban Housing	AMG-II
8.	Alang Area Development Authority, Alang		
9.	Ambaji Area Development Authority		
10.	Anand- Vallabhvidhyanager karamsad Urban Development Authority		
11.	Anjar Area Development Authority, Anjar		
12.	Bardoli Area Development Authority, Bardoli		
13.	Bhachau Area Development Authority, Bhachau.		
14.	Bharuch-Ankleshwar Area Development Authority		
15.	Bhavnagar Area Development Authority, Bhavnagar		
16.	Bhuj Area Development Authority, Bhuj.		
17.	Gandhinagar Urban Development Authority, Gandhinagar		
18.	GIFT Urban Development Authority, Gandhinagar		
19.	Gujarat Municipal Finance Board, Gandhinagar		
20.	Himmatnagar Area Development Authority, Himmatnagar		
21.	Jamnagar Area Development Authority, Jamnagar.		
22.	Junagadh Urban Development Authority, Junagadh		
23.	Khajod Area Development Authority, Khajod		
24.	Khambhaliya Area Development Authority, Khambhaliya		
25.	Morbi-/Wankaner Area Development Authority		

26.	Navsari Area Development Authority, Navsari		
27.	Rajkot Urban Development Authority, Rajkot.		
28.	Rapar Area Development Authority, Rapar		
29.	Shamlaji Area Development Authority, Shamlaji		
30.	Surat Urban Development Authority, Surat		
31.	Surendranagar-Wadhvan Area Development Authority, Surendranagar		
32.	Vadodara Urban Development Authority, Vadodara		
33.	Vadinar Area Development Authority*		
34.	Gandhidham Development Authority, Gandhidham***		
35.	Water and Sanitation Management Organization	Water Supply Department	AMG-III

Annexure-III
(Referred to in Paragraph 7.02)

List of Public Sector Undertaking (PSUs)

Sl No.	Name of PSUs	Name of Department	Groups
Under Section 19 (1)			
1.	Gujarat Women Economic Development Corporation Limited, Gandhinagar	Women & Child Development	AMG-I
2.	Gujarat Gopalak Vikas Nigam Limited, Gandhinagar	Social Justice & Empowerment Department	
3.	Gujarat Thakor & Koli Vikas Nigam Limited, Gandhinagar		
4.	Dr. Ambedkar Antyodaya Development Corporation, Gandhinagar		
5.	Gujarat Minorities Finance & Development Corporation Limited, Gandhinagar		
6.	Gujarat Safai Kamdar Vikas Nigam Limited, Gandhinagar		
7.	Gujarat Nomadic and De-notified Tribes Development Corporation, Gandhinagar		
8.	Gujarat Unreserved Education & Economical Development Corp.		
9.	Gujarat State Handicapped (Divyang) Finance and Development Corporation.		
10.	Gujarat Foundation for Mental Health & Allied Sciences, Gandhinagar		
11.	Gujarat Medical Services Corporation Limited, Gandhinagar	Education Department	
12.	Gujarat Student Startup and Innovation Hub***	Education Department	
13.	Gujarat Education Technologies Limited*****	Panchayats, Rural Development & Rural Housing Department	AMG-II
14.	Gujarat State Rural Development Corporation Limited, Gandhinagar		
15.	Gujarat Livelihood Promotion company Limited, Gandhinagar		
16.	Gujarat Urban Development Company Limited, Gandhinagar		
17.	Gujarat Metro Rail Corporation Ltd. (GMRC), Gandhinagar		
18.	Diamond Research and Mercantile City Company Limited, Surat		
19.	Gujarat International Finance Tec City Company Limited		
20.	GIFT Power Company Limited		
21.	GIFT District Cooling Systems Ltd.		
22.	GIFT Water Infrastructure Limited		
23.	GIFT Collective Investment Management Company Ltd.		
24.	GIFT Waste Management Limited		
25.	GIFT ICT Services Limited		
26.	GIFT SEZ Limited		
27.	Gujarat Agro Industries Corporation Ltd. Sector 10A, Sector 11 Gandhinagar	Agriculture and Co-operative Department	AMG-III
28.	Gujarat State Land Development Corporation Limited, Balram Bhavan, Sector 10 Gandhinagar		
29.	Gujarat Dairy Development Corporation Limited, Sector 7 Gandhinagar		
30.	Gujarat Fisheries Development Corporation Limited, Patel Building, Ellis Bridge Ahmedabad-6.		
31.	Gujarat Sheep and Wool Development Corporation Limited, Udyog		

	Bhavan, Sector 11 Gandhinagar		
32	Gujarat State Seeds Corporation Limited, Beej Bhavan, Gandhingar HO, Gandhinagar		
33	Gujarat State Warehousing Corporation, Opposite Karmayogi Bhavan Sector10/A Gandhinagar		
34	Gujarat Water Resources Development Corporation Limited Sector 10A, Sector 10 Gandhinagar	Narmada, Water Resources, & Kalpsar Department	
35	Sardar Sarovar Narmada Nigam Limited, New Sachivalaya, Gandhinagar		
36	Gujarat water infrastructure limited.		
37	Gujarat State Civil Supplies Corporation Limited , Sector 10A Ch Road Gandhinagar	Food & Civil Supplies Department	

Annexure-IV
(Referred to in Paragraph 7.12 (4))

REVISED FORMAT OF AUDIT CERTIFICATE

OFFICE OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA
NEW DELHI-110002

No-44/Rep(AB)/91-2003

Dated 25th April , 2006

To.

The Directors General of Audit/Pr. Directors of Audit

The Pr. Accountants General (Audit-I)/Accountants General (Audit-I).

(As per list)

**Sub: Revision of audit Certificate in case of certification of accounts of Central/
State autonomous bodies.**

Sir/Madam,

The matter of revision of audit certificate in case of certification of accounts of Central / State Autonomous Bodies where CAG is the sole auditor has been under consideration. In this connection, a copy of the revised audit certificate is enclosed herewith. It is requested that the revised audit certificate may be adopted in all cases of accounts to be certified / SARs issued to the Government/management from 1st July 2006 onwards

2. Suitable corrections to the Manual of Instructions will be issued separately.
3. Hindi version will follow.

Yours faithfully,

Sd/-

(A.K. Koushik)

Encl. as above.

Director (Exam/AB)

Format of Audit Certificate

Separate Audit Report of the Comptroller & Auditor General of India on the Accounts of (name of the AB) for the year ended 31 March 2XXX

We have audited the attached Balance Sheet of _____ (Indicate name of the AB) as at 31 March 2XXX and the Profit and Loss Account/ Income & Expenditure Account/Receipt & Payment Account (strike out which is not applicable) for the year ended on that date under Section 19(2)/19(3)/20(1)/20(2) (mention appropriate Section) of the Comptroller & Auditor General's (Duties, Powers & Conditions of Service) Act, 1971 read with Section _____ of the _____ Act, _____. (*mention the relevant section of the governing Act of the AB and the Act*). The audit has been entrusted for the period up to _____ {*mention in case of Section 19(3)/20(1)*} These financial statements include the accounts of units/branches of the AB (*strike out if not applicable*) These financial statements are the responsibility of the AB's management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. This separate Audit Report contains the comments of the Comptroller & Auditor General of India (CAG) on the accounting treatment only with regard to classification, conformity with the best accounting practices, accounting standards and disclosure norms, etc. Audit observations on financial transactions with regard to compliance with the Law, Rules & Regulations (Propriety and Regularity) and efficiency-cum-performance aspects, etc., if any are reported through Inspection Reports/CAG's Audit Reports separately.

3. We have conducted our audit in accordance with auditing standards generally accepted in India. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. An audit includes examining, on a test basis, evidences supporting the amounts and disclosure in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of financial statements. We believe that our audit provides a reasonable basis for our opinion.

4. Based on our audit, we report that:

(I) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit;

(II) The Balance Sheet and Profit and Loss Account/Income & Expenditure Account/Receipt & Payment Account dealt with by this report have been drawn up in the format approved by the (mention the name of the authority approving the format) under Section/Rules (mention the relevant section of the Act governing the AB and the Act).

(iii) In our opinion, proper books of accounts and other relevant records have been maintained by the _____ [*Name of AB*] as required under Section (*mention the relevant section of the Act governing the AB and the Act*) in so far as it appears from our examination of such books.

(iv) We further report that:

- (A) Balance Sheet
- (B) Profit & Loss Account/Income & Expenditure Account
- (C) Receipt & Payment Account
- (D) Accounting Policies
- (E) General

{Note Significant audit observations on financial statements may be classified into above categories and non-compliance, if any, of the Accounting Standards may be mentioned under respective category referring to any mandatory requirements to follow Accounting Standards by the AB}

(F) Grants in aid

Out of the grants in aid of ₹ crore received during the year (₹ crore was received in March), the organization could utilize a sum of ₹. crore leaving a balance of ₹ crore as utilized grant as on 31st March XXXX. (Please mention if applicable).

(G) Management letter: Deficiencies which have not been included in the Audit Report have been brought to the notice of the through a management letter issued separately for remedial/corrective action.

{Please mention this comment, if any management letter is being issued}

(v) Subject to our observations in the preceding paragraphs, we report that the Balance sheet and Profit and Loss Account /Income & Expenditure Account/Receipt & Payment Account dealt with by this report are in agreement with the books of accounts.

(vi) In our opinion and to the best of our information and according to the explanations given to us, the said financial statements read together with the Accounting Policies and Notes on Accounts, and subject to the significant matters stated above and other matters mentioned in Annexure-I (*number of annexures may be mentioned in case where there are more than one annexure to the Audit Report*) to this Audit Report give a true and fair View III conformity with accounting principles generally accepted in India:

(a) In so far as it relates to the Balance Sheet, of the state of affairs of the _____ (*Name of AB*) as at 31 March 2XXX; and (b) In so far as it relates to Profit and Loss Account/Income & Expenditure Account of the profit/loss /surplus/deficit for the year ended on that date.

(5) A review of accounts showing the summarized financial results of the AB for the last three years is given in Annexure-II. (*Para applicable where a review of accounts is issued to the AB*).

**For and on behalf of the CAG of India
Principal Accountant General/ Accountant General
Director General of Audit / Principal Director of Audit**

Place:

Date:

Annexure-V

(Referred to in Paragraph 7.12 (10))

OFFICE OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA,
NEW DELHI-110002

No.39/Rep(AB)/91-2003

Dated: 03.04.2006

To
The Directors General of Audit /Pr. Directors of Audit
The Pr. Accountants General (Audit-I)/ Accountants General (Audit-I)

(As per List)

Sub: Quality and contents of Separate Audit Reports on the Central/State autonomous bodies- Issue of Management Letter.

Sir/Madam,

It has been observed that some of the offices have been preparing lengthy SARs, even in cases where the annual accounts /SARs are very old. The comments on accounts in SARs proposed by the field offices do not always bring out the impact of accounts i.e. the comments are not linkable with the annual accounts or the comments are too lengthy or of a general nature.

To overcome the above situation, it has been decided to introduce the practice of issuing a 'management letter' in addition to the SAR / audit certificate. In such cases, the auditor submits a detailed report termed 'management letter to the management regarding the procedures, systems, weaknesses in the internal control, etc. which would enable the management to exercise a greater degree of control over the operations of the autonomous body. The observations of following nature may be included in the 'management letter':

- Errors of a minor nature that are not considered material;
- Deficiencies in the accounting records, systems and controls with recommendations for their improvement;
- Non-compliance with the financial control/ internal control procedures as detailed in the concerned accounting/financial manual being followed in the AB;
- Classification errors within the accounting head; where management has assured rectification in next year's accounts. /
- Recovery of advances, steps to be taken for recovery/adjustment of long outstanding balances on personal accounts;
- Reconciliation between the balances as per broadsheets and as reflected in the accounts

- Typing/printing errors which can be rectified at the time of printing the annual accounts/annual reports;
 - Failure to obtain confirmation of balances, or to watch over receipt of utilization certificates from grantee/beneficiaries, etc;
1. The SAR should only contain comments which have the necessary attributes of materiality and significance. However, it has to include the following:
 - Non compliance of accounting standards/instructions contained in the Common Format of Accounts.
 - Corrections / rectifications/revisions carried out at the instance of audit.
 - Cases where assurances for rectification are not fulfilled after a couple of years;
 - Where corrective measures have been taken by the management in relation to matters brought to their attention by the auditors, it may still be necessary, for the auditors to report certain cases to the Governing Body, for example, cases relating to any fraud/embezzlement committed but compensated by officials.
 2. The management letter must be addressed to the Chief Executive Officer of the autonomous body and issued under the signature of PAG/AG/DG/PD concerned. In the SAR, mention may be made invariably about the issue of a separate management letter to the top management/Chief Executive Officer of the autonomous body. It may be ensured that the 'management letter' is issued only at the time of issue of final SAR to the autonomous body/ministry. The 'management letter' will not require headquarters approval but a copy should be sent to headquarters along with the draft SAR.
 3. For inclusion of comments in the SAR, the principle of materiality should invariably be followed and comments of minor/insignificant nature should not feature therein. Every effort should be made to bring out comments on accounts with a clear impact i.e. understatement/overstatement under the respective head of accounts as appearing in the Balance Sheet / Income & Expenditure Account / Receipt and Payments Account.
 4. In this connection, instructions issued in this office circular letter No.111-Rep(AB)/41-99 dated 31.5.1999 and 40-Rep(AB)/91-2003 dated 25.2.2004 may also please be kept in view and followed.

[This issues with the approval of ADAI(RC)]

- 5 Hindi version will follow.

Yours faithfully,
Sd/-
(AK Kaushik)
Director(Exam/AB)

OFFICE OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA,
NEW DELHI-110 002.

NO.-108-Rep(AB)/91-2003

Dated 4th July 2006

To

The Directors General of Audit / Pr. Directors of Audit,
The Pr. Accountants General (Audit-I)/ Accountants General (Audit-I)
(As per list)

**Sub: Quality and contents of SARs on Central and State autonomous bodies-issue
of a Management letter - Specimen thereof.**

Sir,

A reference is invited to this office circular letter No.39-Rep(AB)/91-2003 dated 3-4-2006 wherein instructions were issued for issue of a management letter to the Chief Executive Officer of the autonomous body. From the perusal of management letter received along with SARs, it is observed that the field offices are proposing management letter in different formats. In order to have uniformity, a specimen of the format of management letter to be issued is enclosed for information and guidance it is requested that this specimen may be adopted for issue of management letter. Slight modification, if necessary, keeping in view the activities of a particular AB can be made.

Encl: as above.

Yours faithfully,

(ABC)

Director (Exam/AB)

To,

The
.....

Sir,

I have audited the annual accounts offor the year..... and have issued the Audit Report thereon vide letter dated..... During the course of audit, the following deficiencies were noticed which were of a relatively minor nature and were, therefore not included in the Audit Report. There are being brought to your notice for corrective and remedial action.

- 1.
- 2.
- 3.

Pr. Accountant General

Annexure-VI

(Referred in to Paragraph item (d) of 7.13)

List of SARs of the bodies are not required to be sent to CAG for vetting.

1. Gujarat Building and Other Construction Workers Welfare Board, Ahmedabad
2. Ahmedabad Urban Development Authority, Ahmedabad.
3. Alang Area Development Authority, Alang
4. Ambaji Area Development Authority
5. Anand- Vallabhvidhyanagar karamsad Urban Development Authority
6. Anjar Area Development Authority, Anjar
7. Bardoli Area Development Authority, Bardoli
8. Bhachau Area Development Authority, Bhachau.
9. Bharuch-Ankleshwar Area Development Authority
10. Bhavnagar Area Development Authority, Bhavnagar
11. Bhuj Area Development Authority, Bhuj.
12. Gandhinagar Urban Development Authority, Gandhinagar
13. GIFT Urban Development Authority, Gandhinagar
14. Himmatnagar Area Development Authority, Himmatnagar
15. Jamnagar Area Development Authority, Jamnagar.
16. Junagadh Urban Development Authority, Junagadh
17. Khajod Area Development Authority, Khajod
18. Khambhaliya Area Development Authority, Khambhaliya
19. Morbi-/Wankaner Area Development Authority
20. Navsari Area Development Authority, Navsari
21. Rajkot Urban Development Authority, Rajkot.
22. Rapar Area Development Authority, Rapar
23. Shamlaji Area Development Authority, Shamlaji
24. Surat Urban Development Authority, Surat
25. Surendranagar-Wadhvan Area Development Authority, Surendranagar
26. Vadodara Urban Development Authority, Vadodara
27. Vadinar Area Development Authority

CHAPTER-VIII

RESULTS OF INSPECTION

8.01 Form and method of drawing up the Inspection Report

According to Compliance Audit Guidelines 2016, the compliance audit is conducted at various levels of the organisational hierarchy and needs to be reported to the responsible party, those charged with governance, and the legislature, the form of reports to present compliance audit findings and conclusion would have to address these perspectives. Therefore, Auditors shall present the results of compliance audit in the following reports:-

- I. Inspection Report
- II. Departmental Appreciation Note
- III. Compliance Audit Report

I. Inspection Reports

Part I – Introduction- This part may commence with an overview of the audit unit and to provide its functional/geographical jurisdiction, budget, financial performance and a perspective of the relative significance of the unit in the overall hierarchy of the department in pursuit of organisational goals. This may be followed by a brief explanation of the scope of audit, the sampling procedure followed and the audit sample – including the implementing units, the subject matter(s) selected and the sources of criteria that have been adopted to evaluate the selected subject matter(s). It may indicate that the audit has been conducted in accordance with the applicable Auditing Standards of CAG.

Part II – Audit findings–This part shall contain all findings that pertain to the audit unit and is to be arranged in two distinct parts - Part IIA and IIB - the first part comprising significant audit findings relating to evaluation of the regularity related subject matter(s)/ specific subject matter(s) and propriety related subject matters and the second part – IIB comprising other incidental findings relating to both regularity and propriety aspects. The audit findings should be organised in decreasing order of materiality and significance, if possible.

Presentation of audit findings shall conform to the Auditing Standards and others and clearly bring out the applied criteria, the results of evaluation of the subject matter against the criteria highlighting the cause and effect relationship. Audit finding may also appropriately indicate the extent of non-compliance whether they involve systematic issue or represent isolated cases of non-compliance.

Part III – Follow up on findings outstanding from previous reports– This part may indicate the progress of settlement of audit findings outstanding from previous Inspection Reports and list out the findings that continue to be outstanding.

Part IV– Best practices – Any good practices or innovations, if noticed, during the course of audit may be mentioned.

Part V – Acknowledgement– This part may contain the acknowledgement of the extent of audit units’ cooperation in all matters including production of records called for in Audit. It may also contain details of persons holding the leadership positions in the audit units.

The responsibility of drafting the Inspection Reports shall vest with the respective audit team and that of review and approval with the respective Group Officer.
(para 6.3 to 6.6 of Compliance Auditing Guidelines 2016.)

II. **Departmental Appreciation Note (DAN)**

A Departmental Appreciation Note (DAN) may be issued to the Apex Auditable Entity (Department/ Sector) where a specific subject matter has been selected to assess the extent of compliance from a departmental perspective or the Pr. Accountant General intends to draw attention of the executive towards system weaknesses etc. A consolidation of audit findings presented through the DAN would enable appreciation of both the audit findings that form the basis for Auditor’s conclusion on compliance by departments as well as the audit findings that would feature as standalone findings. The DAN shall be issued to the Head of the Department typically the Principal Secretary, for initiating remedial measures with a copy provided for information to the Secretary Finance, Chief Secretary - the next higher level charged with governance and to Headquarters Office. The Departmental Appreciation Note may comprise the following features:-

Title: - Departmental Appreciation Note on compliance audit of (name of the Apex Auditable entity)

Introduction: - This part may commence with a broad overview of the Department, the organisational goals, governance structure, jurisdiction, and challenges of the Department, financial and operational performance, which may be followed by a broad description of the high risk areas and the related internal controls to enable the responsible party/intended users to appreciate the factors that were considered by auditors while selecting the area for compliance audit during the year.

Objectives and scope: - A brief explanation of the objectives and scope of audit should be provided.

Audit findings: - This part shall contain all significant audit findings and is to be arranged in two distinct sections – the first section comprising audit findings relating to evaluation of the selected subject matter(s), and the second section comprising audit findings on other subject matters and other incidental findings These findings may be organised in decreasing order of materiality and significance. The audit findings included in the DAN, which could potentially feature in the next level of reporting through the Compliance Audit Report should be clearly indicated.

Conclusion:- Depending upon the extent and pervasiveness of compliance of the subject matter observed during audit, the conclusion of compliance should be provided. Further based on the veracity and pervasiveness of findings relating to adherence of sound financial management principles and ethical conduct and other findings, it should

conclude, as appropriate, on the efficiency and effectiveness of internal controls in the areas audited.

Acknowledgement:- This part may contain acknowledgement of the extent of Department's cooperation in all matters including production of records.

The responsibility of drafting the Departmental Appreciation Note (DAN) shall vest with the Audit team and that of approval with the Pr. Accountant General in field offices. In cases where multiple teams were deployed for audit of an Apex Auditable Entity and a lead team has been identified for conduct of compliance audit, lead team is to draft and finalise the DAN, for approval by the Pr. Accountant General.

III. Compliance Audit Report

The Compliance Audit Report shall feature significant audit findings which require the attention of the legislature and other intended users including the public at large. Presently, the significant audit findings that could potentially feature in the Compliance Audit Report are communicated to the Apex Auditable Entity (AAE) by issuing Draft Paragraphs and/or Statement of Facts. The significant audit findings would therefore emerge from the Inspection Reports, Draft paragraphs, Statement of Facts and from the Departmental Appreciation Notes containing conclusion if any on a specific subject matter, which shall be carried forward for reporting in the form of a Compliance Audit Report of the CAG of India. To ensure objectivity of the audit findings and conclusions of the Compliance Audit Report, confirmation of facts and figures by the AAE and incorporation of responses is very crucial. Auditors shall therefore ensure that facts and figures are accepted by the AAE and shall pursue responses from the AAE.

The responsibility of preparing and ensuring the quality of the Compliance Audit Report before it is submitted to CAG for approval would be with the Pr. Accountant General. The Compliance Audit Report could be brought out as a separate Audit Report or alternatively could be included as distinct Chapter(s) in a consolidated Report with findings of other types of audit. The decision with regard to the manner of featuring the compliance audit report shall vest with the respective DAI/ADAI.

(Authority: Compliance Auditing Guidelines para 6.4 to 6.12)

The details of Compliance Audit Plan, Planning Compliance Audit, Conducting Compliance Audit and Reporting Compliance Audit are mentioned in Chapter-12 of this Manual.

(ii) All irregularities and other points settled on the spot should be embodied in the schedule in **Form X**. The schedule should be made out in duplicate and signed by the Supervising Officer/ Inspecting AAO and the head of institution audited. One copy of the schedule should be delivered to the head of the office for taking action on the basis of the replies to the memos or as promised at the time of discussion. The other copy should be submitted with the draft Inspection Report and retained in the Inspection file. The action taken by the department on the items noted in the schedule should be verified at the time of subsequent inspection and a certificate of verification recorded by the supervising officer or AAO as the case may be. Inspection Reports should also briefly

describe the general state of accounts and the nature of the financial control in the institution audited, disclosing any defects in system or error in principle.

(iii) In the Inspection Reports issued it should be sufficient to state that a test audit was conducted without specifying the month or other details. In the office file, however, a note should be kept as to the month's accounts which were subjected to detailed audit, so that the information may be available for fixing the responsibility, if it becomes necessary for any failure of audit etc. at a later date.

(CAG's Letter No. 12 Admn. II / 954 dated 6-2-1964).

(iv) Inspection notes should be made as short as possible consistent with clarity and the importance of the matter dealt with. Long notes generally indicate vagueness of ideas and inability to discriminate between the important and the unimportant. They create problems of avoidable work all around, as tedious reading very often leads to the essentials being lost sight of, and thus detract from the value of inspection. The following directions are to be followed in drafting the Inspection Reports:

(a) All points which could be settled on the spot should be settled then and there, and only very important irregularities, which should be brought to the notice of higher authorities or which are deemed necessary to be recorded in the notes or which could not be replied off hand by the departmental officer should be carried over to the notes. All minor irregularities in the maintenance of accounts, directions of a routine nature etc, should be incorporated in memos and should be got rectified or noted by the Head of the Office or in his absence by his Deputy.

(b) When matters which could normally be settled on the spot are not being settled due to the neglect or non-cooperation of the departmental officer, a note regarding such points should be submitted to the Central Office by the OAD Party for being taken up with higher authorities.

(c) Narrative form should be confined to the most important general features. The tabular or statement form and appendices should be resorted to wherever possible in other cases. The report should concentrate on bringing out the salient points under objection and avoid all irrelevant and redundant matters.

(d) Irregularities in challans are often the subject of long comments in Test Audit Notes. The proper and effective procedure is to proceed to the Treasury in cases of doubt and to verify the correctness of the remittances. Otherwise, these items fizzle out in the course of time due to vague and unsatisfactory replies and are therefore of not much value. It has also to be remembered that it may be difficult for a departmental officer to obtain a certificate of remittance in cases of remittance by private parties.

(e) Suggestion to open register, maintain accounts, submit returns etc. is another common feature with audit notes. Such suggestions should be made only when absolutely necessary and when made, should be with reference to similar transactions in other departments and the accounting procedure prescribed from time to time in codes and manuals.

The following points may also be borne in mind in drafting the inspection reports and test audit notes.

1. Irregularities and defects in procedure noticed during the inspection should be detailed in case a defective procedure persists; a reference to paragraphs in previous inspection reports should be made.
2. In order to facilitate subsequent references and the checking of the results of inspection, the arrangement of the report should be systematic corresponding closely to the conduct of the inspection.
3. When anything is noted as not quite satisfactory, the reasons should be stated in the body of the report in details.
4. Remarks of a general nature should be supported by concrete instances.
5. All exaggeration of language should be avoided. In drafting the inspection reports, the language used must be moderate and impersonal as the effectiveness of an audit objection is more likely to be reduced, rather than enhanced by the use of strong language. As a matter of fact, the more serious the nature of an objection the greater is the need for using language which is both polite and unexceptionable. The use of such words as 'should', 'must' etc. is to be strictly avoided and the words 'please' and 'kindly' used as freely as possible. No improper or questionable motives should be attributed in the inspection reports, even by implication, to any officer. All comments should as far as possible, be concluded in the third person and in impersonal and objective phraseology.
(CAG's D.O. No. PS. 5XXX/56 dated 23-10-1956)

NOTE. The guidelines issued in the Style Guide issued by CAG in Circular No.113-Audit (AP)/6-2003/348 Dated 27-8-2003 may be followed in drafting inspection reports. (Please see Para 8.20 also)

6. An Inspecting Officer should avoid the temptation of padding his report with points which in his opinion should have come to notice in the Central Audit. He should make out a list of these points separately and send it to the concerned Sr. DAG/DAG of AMG groups.
7. When an inspecting officer finds that his report is likely to be of abnormal length, he should include only the more important items in the report and add the rest as an appendix so that an unwieldy report may be avoided and attention may better be concentrated on the really important points finding mention in the report. There is no necessity to explain in the inspection report the intention or significance of the rules. It would be sufficient to mention the rule or rules and state how they have been infringed. It is not necessary to draw inferences from the infringement of the rules and make comments thereon.

Note: Whenever statements or appendices are attached to inspection reports or Test Audit Notes, AAOs of OAD Parties should take special care to see that at least five copies of the statements are prepared by carbon process and attached to the reports.

8. The use of adjectives and adverbs such as 'serious' (irregularities), 'highly irregular' (special notice) etc. should be avoided in the drafting of inspection reports.

9. The report should be clear, lucid and to the point. In cases where the Departmental Officers have acted in pursuance of any instructions issued by the head of the Department or Government, the matter should not generally be subject of comment in the Inspection Report but should be dealt with separately for necessary action in the Central Office.
10. Inspecting Officers should take particular care to see that the reports are so drawn up as to afford no ground for complaints from the local authorities in regard to their tone or substance. The inspection should be conducted with tact and discretion so as to avoid possible or unnecessary irritation to the departmental authorities.
11. Wherever any irregularity or delay which was previously noticed is taken up again by the audit staff, the fact should be mentioned in the report with reasons for its inclusion.
12. Money value of objections should be specified wherever possible not only for those coming under Para 7.1.6 of MSO (Audit) Second Edition-2002, but also for cases of enquiries and remarks made on doubtful points which may have a potential money value e.g. The amount of contracts for which open tenders are not called for, cases where the lowest tender is not accepted without adequate reasons, value of the extra concessions granted to contractors not provided for in the agreement etc.
13. Delay if more than a year on the part of departmental offices in effecting recoveries of Government dues, other revenues and loans and advances should be suitably commented in the Inspection Reports, while commenting on delays of more than a year, the position of arrears as on 1st of April of the year preceding the year in which local audit is conducted, should also be mentioned in the Reports.
14. Objection which can be waived under Article 7.1.16 to 7.1.18 of MSO (Audit) Second Edition-2002 should not be embodied in the report or the audit note but should be put up to the Central Office for orders.

Objections which are simple directions and instructions for future should be included in an Appendix to the Inspection Report.

15. All statements and allegations made and all figures furnished in the report should be based on clear documentary evidence so that the audit office may be in a position to press for proper action. There should be supporting data or evidence for all the adverse comments made.
16. The names of officers responsible for the irregularities should be kept on record in rough notes in all cases of serious irregularities.
17. Copies of correspondence or other orders cited in the draft reports or notes should be furnished with the reports. In cases where the correspondence is too voluminous for copies to be furnished readily, a brief note on the subject may be prepared in consultation with the Head of Office, get attested in token of its factual correctness by the Departmental Officer and furnished. Wherever paras

that should be developed into draft paras are included in the Inspection Reports, documents in support of the remarks contained should be enclosed.

18. All objections, defects in the system and all irregularities noticed in the course of inspection and all items of objections, etc. of previous reports not finally settled or remedied till the date of the completion of the current inspection should be classified and each class of defects should be dealt with in separate paragraphs.
19. Every paragraph should comprise of three distinct parts, first a statement of facts, next the money value of the objection or its approximate value as calculated from the available data, and then the rules and orders infringed, together with their brief substance and the nature of the irregularity and the action required for removing it. This arrangement may not necessarily be adhered to strictly. e.g. The rules infringed may indicate first and facts stated next, but all points must be distinctly stated. Special attention should be drawn to important matters like wilful and persistent neglect of duty, falsification of accounts, chaotic state of accounts etc. in a separate paragraph if necessary. But reasons for arriving at the conclusion in concrete instances with full particulars should invariably be given in detail in the report.
20. Suggestive headlines should be given above the different paragraphs in indication of the substance so as to encourage the busy officer to read through the paragraph. Mere general headings such as 'cash book' or 'revenue on account of credit sales' or 'outstanding revenue' do not indicate anything, but 'omission to enter receipts and payments in the cash book' or 'out standings due from Government Officers' give a definite idea and makes one inquisitive about the contents of the paragraph.
21. When statistics are given in the inspection reports, Inspecting Staff should give the current year's figures in addition to the figures for the year of account which is audited. The difficulty of furnishing proper audit certificate in the absence of any information (which should be detailed) should be noted in the inspection report.
22. When the points relating to Stores and Contracts are investigated in audit, the full details should be mentioned in the inspection report so that they may eventually be incorporated in the Appropriation Accounts/ Report of the CAG.
23. Use of abbreviations in writing technical terms should be scrupulously avoided when preparing inspection reports as well as the appendices as this practice would cause much inconvenience to all who deal with the reports, particularly the copying group who cannot correctly expand the abbreviations in the fair copy of the report. In the usage of words, CAG's guidelines issued in "Style Guide" may be followed.
24. The write-off orders received from the Central Office should be scrutinised during local audit and the compliance report should be sent to the office direct. The above fact should be indicated in the title sheet accompanying the Inspection Report.

(Circular No.OAD D/PPS/Com/960 ft. Dt.17-9-71 Approved by DCC 2.1)

25. As the outstanding objections are not mentioned in details the pursuance of the outstanding objections has to be carried out on the basis of the original reports and their progress watched through the prescribed register. Any tendency to overlook the original paragraph and to pursue the outstanding items on the basis of extracts appearing in Part I (b) of a subsequent report has to be discouraged.

Occasions may, however, arise when an outstanding paragraph in the previous report may have to be examined at the time of current inspection and the original incorporated as a separate paragraph in Part II of the current report as a result of spot inspection and discussion. In such cases, pointed attention of the departmental authorities concerned may be drawn indicating the inadequacy of the action taken in the past. It may be permissible in such cases to treat the outstanding objections appearing in the original report as settled. But such a procedure should be adopted only in exceptional cases where outstanding paragraphs in the report are very few, say, one or two only.

(CAG's Letter No. 2543-TA-I/264-71 dated 16-11-1971, File OAD .I/GI/2- 36/71-72)

8.02 Preparation of Inspection Reports

- (i) As soon as any of the audit query statements issued (in form SY 327) is received back with replies from the head of the office inspected, suitable draft paragraphs should be prepared for the inspection report on the important items contained in audit query statement, each paragraph dealing with one objection only or a group of similar objections. In this manner as all the audit query statements will be received back, the draft inspection report will be prepared in the course of the local inspection. It will be signed by the Supervising Officer, or by the senior of the inspecting AAO where there is no supervision.
- (ii) The time allotted in the audit programme for each office includes the time required for drafting the inspection report / test audit notes. The work of local audit should therefore be so spread out as to allow for the above duty as well. The preliminary audit query statements should also be carefully drawn up so that the task of drafting the report might be easy. The checking and scrutiny of the records should not be postponed till the last hour. The supervising officer and AAO should make it a point that the last day of the audit is utilised for drafting the report and discussion with the head of the office.
- (iii) Each Supervising Officer/ AAO should write out the report himself and not leave it to his subordinates.

During inspection of the field offices the audit objections should be drafted carefully and properly. The objections included in the inspection reports are often based on incomplete information and are also not clearly worded. As a rule, trifling matters which can be set right on the spot or are of no consequence to the finance of Government need not be mentioned in the Inspection Reports. However, if a number of similar points are noticed, it may be desirable to mention the type of error or irregularity with one or more instances so that proper instructions may be issued for future guidance of the Government servants concerned. It is desirable that statements and figures in relation to any defects or irregularities discovered should be based on clear documentary evidence. It is not

sufficient to quote the rule or the order violated, the actual or possible effect of such deviation on the financial interests of Government should also be explained clearly. There are codal instructions that all observations and objections must be conveyed in courteous and impersonal terms and must be clear and intelligible. It is of utmost importance that any statement of criticism or irregularity should be accurate, fair, moderately worded and dispassionate. Innuendo is forbidden; if a charge cannot be substantiated, there should not be even any hint of it.

(CAG's Office No. 20/715/TAI/106-81 dated 20-6-1981)

- (iv) In drafting the inspection report the Supervising Officer / AAO should give due emphasis to the reply given to him by the Administrative Officer and bring out his point of view in the final draft with comments so that the view taken by the department may be examined at the very outset rather than at the final stage.
- (v) The inspection party should invariably discuss the draft inspection report with the head of office or in his absence with the person in charge and the fact of the discussion should be recorded in the draft inspection report over the dated signature of the person with whom discussed. It should be recorded in the inspection report by the inspecting officer that "all observations pointing out lapses in the implementation of system and procedure and all weaknesses in responsibility centres have been discussed with the head of office and assurance obtained in writing in regard to corrective measures for arresting potential risks". If they are unable to give such an assurance, the minutes of the meeting should be drawn up and attached with the inspection report.

(Auth: Circular No.5 of APM/Gen/S-1/Peer Review dtd. 14.7.2005)

- (vi) The Inspection report should be completed before leaving the office inspected and should not be signed until the officer in charge of the office has been given the opportunity of reading and discussing it and suggesting any omissions or modifications.
- (vii) The signature of the head of office inspected should be obtained on the draft report in token of his perusal of the report and correctness of the facts contained in it.
- (viii) The Test Audit Notes should be issued to the Head of the Office inspected over the signature of the Sr. Audit Officer supervising the audit. In cases where the local audit is not supervised by a Sr. Audit Officer, the Test Audit Notes should be issued over the signature of the AAO in charge of the party.

The covering letter enclosing the TAN should include a disclaimer statement as given below:

" The Test Audit Notes have been prepared on the basis of information furnished and made available by the Auditee. The Office of the Pr. Accountant General (Audit-I), Rajkot disclaims any responsibility for any misinformation and / or non-information on the part of auditee. "

(HQrs. Letter NO. 14-LC/III/2005 dated 20-1-2006).

Particular care should be taken to see that only such points are included in the Test Audit Notes as can be set right by the Head of the Office inspected without reference to higher authorities.

(CAG's No. 2374. Tech. Admn. I/ 367-65 dated 7-8-1965).

- (ix) The Supervising Officer / AAO should see that the draft inspection reports are despatched so that they are received in Headquarters Section within seven working days from the date of completion of audit. If any delay is anticipated, the matter should be specially brought to the notice of the Group Officer in a note, clearly indicating the reasons therefore and also the period of extension sought for.

8.03 Drafting / vetting of Inspection Report

The Supervising Officers shall scrutinise the audit memos and draft the Inspection Reports carefully and edit them. When the Supervising Officer is not present on the closing date of the audit the AAO may draft the report exercising the same amount of care and forward the draft Inspection Report with rough notes to APM Section for noting and transmission to concerned OAD Section for approval by Sr. AO(HQrs).

The Inspecting Officers will be responsible for the correctness of all facts and figures given in the reports. Uniformity in drafting the reports also has to be ensured. The instructions contained in Para 6.1.21 of the MSO (Audit) Second Edition-2002 and Paras 8.03 and 8.04 above should be carefully followed in drafting and vetting the Inspection Reports and they should be sent to the Central Office as a finished product, ripe for issue without any touching up in the Central Office.

8.04 Submission of Inspection Report to Headquarters:

- (a) In submitting the draft inspection report to the Headquarters the Inspecting AAO should attach a title sheet as mentioned in *Annexure-II* of chapter 12 of this Manual. The entries in respect of Parts A to B should be filled in by the Inspecting AAO.

The following points should be borne in mind by OAD Parties while preparing and forwarding Inspection Reports / Test Audit Notes to HQrs.

- (i) Reference to Audit Enquiry numbers/ Page numbers and replies thereto are to be noted against the relevant para of Inspection Report / Test Audit Notes. The name of person who initiated the para should also be indicated against the para.
- (ii) Certificate of nominal and number audit should be furnished in the title sheet.
- (iii) Index of irregularities and questionnaire on stores and stock, properly filled up, are to be enclosed with the draft inspection reports.
- (iv) When part II of the Inspection Report is Nil, a Nil report is to be furnished;
- (v) Statements in Forms 'A' and 'B' are to be furnished on separate sheets.
- (vi) Items of original work done by supervising officer should be indicated against "remarks of Supervising Officer" in the title sheet.
- (vii) Details of the number of service books maintained and checked and the percentage checked and a separate list of service books of persons due to retire within 5 years, checked by the party should be attached to each Inspection Reports.

- (viii) List of remittances checked with the Treasury records is to be attached to the draft Inspection Report and a Nil list should be furnished if remittances are nil.
 - (ix) Statement of the details of payments collected from the Treasury and verified with initial records.
 - (x) The months selected for detailed audit and check of arithmetical accuracy exercised are to be indicated in the title sheet.
 - (xi) Where extensions of time is recommended or sought for in local audit the specific nature of increase in work justifying the extension such as increase in contingent expenditure, starting of new schemes etc. should be mentioned in the recommendations/ request made if it is to be considered.
- (b) The Inspecting AAOs and the Supervising Officers should take particular care before the inspection report is submitted to headquarters, to see that the accounts audited and their supporting statements and documents such as Store accounts, Proforma account, Income and Expenditure account, are complete in all respects and they should invariably initial and sign these documents wherever required and send them duly completed along with the inspection report for necessary action.
- (c) The report should also be accompanied by
- (i) A certificate under the dated initials of the AAO that the receipt books used have been checked since the date of last inspection in regard to the continuity in all serial numbers of receipts entries in the cash book and their completeness in all respects; and
 - (ii) That the unused receipt books are under proper custody and have been verified and found correct and
 - (iii) A certificate as precisely as possible about the general state of accounts examined by him.

8.05 Examination of the Inspection Report

The draft inspection reports should on receipt at the APM/OAD-III/AMG-III Section be entered in the Register for watching Receipt and Issue of Inspection reports (*Form III*) centrally maintained.

1. Each para in the report should be examined carefully to see that the objection raised therein is correct with reference to relevant rules and orders. If the objection raised in the para is correct, but the relevant rules or orders have not been quoted, the Section may modify the para quoting the authority in support of the objection.
2. If the objection raised in the para is not correct with reference to the relevant rules and orders, the Section should bring it to the notice of Sr.A.O./Sr. DAG/DAG by making suitable remarks in the margin.
3. If a para is proposed to be deleted from the Inspection Report by the section, reasons thereof should be indicated in the margin.
4. Objections raised in regard to fixation of pay should be scrutinised with reference to the relevant rules and the pay revision orders and any other service regulations wherever necessary

5. Paras in current Inspection Reports should be scrutinised with reference to the previous Inspection Reports of the same institution to see whether similar objections have been raised previously and if so whether the paras in the previous report can be dropped in the light of the comment made in the current report.
6. Objections of similar nature may be grouped together to form a single para.
7. An objection raised in the para should be brief, but at the same time clear and convincing. If necessary, the para may be redrafted or modified by the Section deleting irrelevant and unnecessary materials so that it becomes brief, clear and complete and factually correct. Repetition of information already known to the department or information deemed unnecessary to substantiate the audit objection may be deleted.
8. If the audit party had made any remarks about the number of days allotted for the audit of a particular institution, or sent any materials for examination at headquarters, the same may be brought to the notice of APM Section with remarks of the Section.
9. Delay in sending draft Inspection Reports to the headquarters and omission to send necessary enclosures and certificates by the party should be promptly brought to their notice. The section should list out such omissions in the edition memo. If such omissions/lapses are habitual in spite of being pointed out that should be brought to the notice of concerned Sr.DAG /DAG of AMG groups separately.
10. Above all the timely receipt, vetting and despatch of Inspection Reports should be watched promptly. 'The Register for watching receipt and issue of Inspection Reports' maintained in APM section in form SY.336 -- (**Form III** of the Manual) should be filled up promptly from the tour programme / Draft Inspection Report on completion of each stage of action on the processing and issue of Inspection Report.
11. The section which issues the report will be responsible for their disposal. They should watch the receipt of replies from the officers concerned and if not received within a month, should call for them. The replies to the report should be scrutinised and further remarks, if any, issued. Receipt of the Inspection Report from the field parties will be watched in APM /OAD-III/ AMG-III Section by the programme Auditor, who after indexing them in the Register maintained for this purpose, will transmit them immediately to the dealing OAD for issue and disposal, which is to be watched through the register maintained in **Form IV**. The progress of action taken and the final disposal of each report will be watched by each auditor through a progress register to be maintained in **Form V**.
 1. The following document should invariably accompany a Draft IR submitted by local audit parties to APM/OAD-III/AMG-III Section and before submission of the inspection report to the Sr. AO (HQrs)/concerned DAG or Sr. DAG of AMG groups for approval, the concern OAD section ensure the following documents have been accompanied with the Draft Inspection Report.
 - (i) Title Sheet with individual work profile
 - (ii) Index of irregularities

- (iii) Questionnaire
- (iv) Minutes of Entry Meeting and Exit Meeting.
- (v) List of remittances into Treasury for the selected month verified at the Treasury.
- (vi) Statement of details of payments collected from Treasury and verified with initial records.
- (vii) List of service books checked
- (viii) Certificate of nominal and number audit.
- (ix) Note to OAD (HQrs) regarding details of institution.
- (x) Audit Enquiry Docket - (List of Audit Enquiries and replies)
- (xi) Audit Enquiries and replies to audit enquiries.
- (xii) List of deposit repayment vouchers audited in respect of courts.
- (xiii) A and B statements
- (xiv) Check list
- (xv) Duty list
- (xvi) Verification reports of the previous inspection reports
- (xvii) Form of electronic database-auditee profile
- (xviii) Audit Note-Book
- (xix) Statements received from the auditee office

2. The report has been page numbered. The name of the official who initiated the para and the reference to Audit Enquiry number and page number has been indicated in the margin against each para in the Inspection Report.

3. The Audit Enquiries and replies should be examined to ensure that all genuine objections not settled on the spot on the basis of reply are included either in the inspection report or test audit notes.

The report should be subjected to preliminary check by the units concerned in regard to the formalities to be observed such as proper filling of title sheets, furnishing the required certificates, enclosures etc. After exercising the checks prescribed above the reports written or vetted and approved by Supervising Sr. Audit Officer should be submitted to the Group Officer / PAG/AG direct after verifying the facts stated in the draft inspection report. No edition or vetting is to be done by the section, but suggestion for modification / addition / deletion etc. may be indicated with reasons thereof in the margin for approval of Sr.DAG/DAG. The draft inspection report in respect of audit not supervised by Sr. Audit Officer will be submitted to the Sr. Audit Officer OAD (HQ) after exercising the preliminary checks detailed in the previous para and after verification of facts. No edition or vetting is to be done by the section, but suggestion for modification / addition / deletion etc. may be indicated with reasons therefore in the margin for approval of Sr. DAG/DAG.

While scrutinising draft inspection reports the concerned Sr.DAG/DAG of AMG groups will delete matters which are put into reports merely to increase their bulk. He will mark for the Register of financial irregularities any paragraph which are in his opinion worthy of further pursuit or important enough to go into Report of the CAG but have not been already so marked by the Supervising Officer or the inspection AAO. He will then finally approve all such inspection reports. Paragraphs, if marked for inclusion in the

Register of Financial Irregularities, should be noted in that register. Inspection reports on special audits or where frauds etc. are disclosed and inspection reports, which in the Sr. DAG/DAG's opinion, contain irregularities and points of importance which should be brought to the notice of the PAG/AG (Audit-I), should usually be submitted to him.

All cases which are likely to develop into draft paras should be examined carefully and intelligently by the Headquarters Section in consultation with the Audit Section concerned wherever necessary and orders of concerned Sr.DAG/DAG of AMG groups obtained. The paras edited and finalised after such examination should be sent to the Heads of Departments etc. separately as a note with suitable covering letter in the Inspection Report file itself. The report should simultaneously be made available to Government also. The inspection reports will be considered as finally issued only after this action is completed.

8.06 Performance of Audit Parties

The performance of field parties and the quality of inspection report are monitored through a performance register maintained in *Form-XV* at the OAD Sections. Headquarters office have set certain parameters that contain ten broad based categories (from A to J) under which all the objections appearing in the Inspection Reports are to be grouped. The list of headings is given in the *Annexure-I* to this chapter.

8.07 Forwarding of Inspection Reports:

(i) It has been decided by the CAG of India in consultation with the Ministry of Law that the inspection report as finally issued to the Administration or head of office inspected after scrutiny and editing in the headquarters office of PAG/AG should be formally approved by the Group Officer or Sr. Audit Officer as the case may be. The forwarding letter or endorsement should be worded as "I forward herewith the report on If more than one copy is sent the forwarding letter should make it clear that the inspection report on the accounts of with spare copies is being sent. The forwarding letter should contain a disclaimer statement as given below:" The Report has been prepared on the basis of information furnished and made available by the auditee(s). The Office of the PAG/AG (Audit-I), Rajkot, disclaims any responsibility for any misinformation and / or non-information on the part of auditee." (Headquarters letter No. 14-LC/III-2005/ dated 20-1-2006).

(ii) In addition to the copy or copies of the Inspection Reports sent to the head of the Government Office or institution inspected a copy of the Inspection Report should also be sent simultaneously to the next higher authority and his attention invited specially to any important item or serious irregularities or other points requiring his special attention. If the next higher authority happens to be an official other than the Administrative Ministry / Department of Government, it is for this official to consider the necessity of forwarding a copy of the inspection report to the Ministry or department in whole or in part. It is not necessary for audit to send copy of the Inspection report to the administrative Ministry / Department separately unless such a request is made by the Ministry or Department.

(Letter No. 2205-Admn.II/608/Admn. I/58 dated 11-9-1959 of CAG of India).

8.08 Issue of Inspection Report

(i) Inspection Reports are to be issued within one month from the date of completion of the inspection.

The period of one month has to be computed as under:

7 working days	For receipt of the draft report from audit party (The draft report is expected to be discussed with the officer-in-charge before the closing day of inspection).
5 working days	For the Section to submit the report
4 working days	For the Gazetted Officer to pass the report and
10 working days	For typing and issue of report.

Total 26 days.

(Authority: Headquarters letter No. 125-Audit(AP) 109-95 dated 2-8-2004 enclosing Circular No. 19-TA I (83) / 83-84 dated 16-7-1983)

Note: All OAD Parties should forward the draft inspection reports on the last day of audit itself or on the next day so that they are received in Headquarters Section within seven days. Sr. Audit Officers where they supervise, should check up that the parties have sent the draft inspection reports immediately after audit.

(ii) In respect of audits undertaken on behalf of other Accountants General the preliminary audit enquiries, replies thereto and the draft report on the local audit should be forwarded in original to the Accountant General concerned after retaining copies thereof. For this purpose, the local audit parties should furnish the draft report and connected papers in duplicate.

(CAG's Cir. No. 71-74 I/80 issued in 1463 -- 74/1/149 dated 4-12-1980).

8.09 Watching of objection arising out of local inspection

The instructions mentioned below should be followed in recording objections which arise out of local inspection of departmental offices conducted by the Outside Audit Department:

(i) A separate objection book should be maintained as required in para 7.2.2 of the M.S.O.(Audit)Second Edition-2002 in OAD (HQ)rs for recording objections raised in local audit and inspections for which money values should also be assigned as far as practicable. Before the Inspection Report is put up for approval, all items of objections should be entered in the Objections Book and a certificate to that effect recorded.

(ii) All objections arising out of local audit which are susceptible of being expressed in money value should be registered in objection books.

The following types of objections need not, however be registered in the Objection Books.

(a) Trading and proforma losses of Government concerns / schemes as these are only proforma in nature and are meant to apprise the departmental authorities of the manner in which the concerns/ schemes are functioning.

(b) Outstanding dues of Government on account of credit sales and other outstanding dues to Government in respect of which accounts are kept by the Department for the purpose of watching recovery.

Note: Items in respect of which there is delay in recovery beyond one year should however be segregated and commented upon in the Inspection Report for being recorded in the objection book kept in OAD (HQ) for further pursuance. Recoverable amounts omitted to be included in departmental records for watching recovery and under-assessments of amounts should be commented upon in the Inspection Reports. This procedure should also be followed mutatis mutandis in the case of outstanding dues pending recovery in respect of advances not debited to a Debt, Deposit or Advance Head of Account.

(c) Outstanding loans and advances made by department agencies if the loans and advances are debited to debt deposit or advances head of account as the recovery of this is watched through other records.

(d) Cases of differences, discrepancies etc. in stock other than specific cases of shortages in departmental balances of stocks for which responsibility has not been fixed and action for recovery have not been taken.

(iii) In all cases where objections are recorded in the Objection Books the section will take all action necessary for the early settlement of the objection.

(CAG's Letters No. 2665.Admn/I/365-60 dated 29-8-1960)

8.10 Time allowed for furnishing replies to Inspection Reports and Test Audit Notes:

(i) Within four weeks of the receipt of an inspection report, the head of the office concerned is expected to furnish his replies through his Controlling Officer/ Head of Department. In any case, the period of receipt of the first reply should be within one month the date of issue of Inspection Report.

(CAG's No. 1895-Admn.III/268-60 dated 20-9-1960)

(ii) All cases where first reply to the Inspection Report has not been received within one month from the date of issue should be pursued with the departmental officers through D.O. letters for a further period of two months. If the departmental officers fail to furnish reply within this period of 3 months their names should be reported to Government in the Administrative Department for taking action.

Name of officers who repeatedly delay the first reply should also be reported separately to Government in the Administrative Department concerned for taking suitable action against them.

The due date for issue of demi-official letters for reporting to administrative department is fixed as 9th of every month. The number and date of letter issued to the departmental officer/ administrative department should be noted in the Progress Register of Settlement of Inspection Reports.

8.11 Disposal of IR paras and closing of IRs.

On receipt of the replies to the Inspection Report from the head of the office and the comments of the controlling officer / head of the department thereon, the headquarters

office will dispose of points not requiring the attention of the Government and return one copy to the Head of the Department with further remarks.

The subsequent procedure for the final disposal of the Inspection Report with regard to the outstanding paragraphs which could not be settled from the replies to the inspection report is to be settled through correspondence. If the replies to the paras received are acceptable to audit, the objection is dropped on the orders of the Sr. Audit Officer in charge of the OAD (HQ) Section concerned and the fact reported to the institution concerned. When all paras in the Inspection Report are dropped, the Inspection Report is treated as closed on the orders of the Sr. Audit Officer and the fact intimated to the office. Simultaneously, necessary entries are made in the Register to Watch Progress in Settlement of Inspection Reports (*Form-IV*)

8.12 Streamlining the procedures and method for pursuing Audit Objections and inspection reports

Guidelines for a review for observance in regard to outstanding objections of prior of 2003-04 and earlier years are set forth in *Annexure-I*.

In regard to current objections/pending inspection reports and paras the following line of action should be taken.

(a) An effective arrangement for review and verification with the department records for wanting documents and discussion of other audit objections relating to a year but remaining unsettled by the end of the following September should be established with the PAG/AG's office and also with the State Government.

(b) Power of waiver of petty objection should be exercised abinitio freely.

(c) The existing procedure for recording outstanding objection over 6 months old in central Audit in separate control record (six monthly register) for review by the Group Officer and also a random review by the coordinating sections, for submission of special reports on the results of such review to the Group Officer and the PAG/AG should be enforced.

(d) Inspection Reports of paragraphs which remain outstanding for more than five years from the date of issue should be reviewed and discussed with the Heads of Departments by the Group Officers in an institutionalised arrangement.

(e) Overlapping objections relating to the same work or scheme lying scattered in different inspection reports should be reviewed for a consolidated reference to Government and the individual paragraphs dropped.

(f) In states in which internal audit units have been set up in the finance Department, or individual Department, inspection of the offices with heavy outstanding may be undertaken jointly with such internal audit units.

(CAG's No. 748-TA/& 745-82 Vol. II dated 19-6-1982)

The audit observations on which the State Government have taken certificatory action, also suitable remedial measures to set right lacuna or difficulties in the procedures need

not be included in audit report unless these are so important as it may be necessary to bring these to the notice of the Parliament/State Legislature.

(CAG's No.962-TA/45-82 Vo. II Dated 2.8.1982)

Annexure-I

Guidelines for the clearance of old outstanding audit objections/paragraphs of Inspection Reports.

A review/analysis of outstanding objections/ paragraphs of Inspection Reports may be conducted on the following broad lines.

(a) Paragraphs where departmental views have not been accepted may be discussed with the concerned Secretary to Government at the level of Group Officer and pursued further if likely to be mentioned in the Audit Report, otherwise these having been reported to Government may be dropped.

(b) Paragraphs relating to initial and subsidiary accounts in audit reports may be clubbed with or merged in the paras on the same point in the latest reports. Paras which have dealt with the subject matter vague or where no rectification or improvement has been suggested may be dropped.

(c) Paragraphs containing objections on grounds of propriety but not likely to be included in the Audit Report either because the amount involved is not much or the propriety is not serious and which have remained outstanding for more than five years be removed from list of outstanding after bringing one outstanding para for joint meeting with the concerned departmental officers and Account Officers for linking up of the records/papers sent by former (especially in regard to objections outstanding for want of payees receipts and detailed contingent bills) for settlement. The objections remaining outstanding even after discussion may be taken at the Group Officer's level with the Head of Departments/Administrative Departments and those which are significant may be proposed for inclusion in the audit reports.

8.13 Audit Committee

At the instance of Audit,

1. Government of Gujarat have issued instructions (April, 1991) to form Audit Committees for speedy settlement of objections and inspections reports.

An Audit Committee will be formed for each department at secretariat level consisting of the Secretary to Government, heads of department, one senior officer of the PAG/AG's Office and one officer of the Finance Department. The Committee will meet every month to review the progress of clearance of audit objection and Inspection Report paras.

Another Audit Committee at departmental level consisting of Head of the Department, Dy. Accountant General and Finance Officer of the Department will be constituted to review every month the pendency and clearance of audit objections and inspection reports paras. Government have further directed to conduct quarterly audit committee meeting to review the progress achieved in the case of major departments where there is

substantial pendency of audit reports etc. Regional / zonal meetings of Audit Committee have to be convened regularly.

(CAG's Circular No. 3 - Audit II/83 dated 17-1-1986 and GR. FD No. ADR 1084-1078-G Dt.19-2-85)

2. The APM Section should initiate action to address the Head of Departments concerned to form Audit Committees and hold frequent meetings for clearance of outstanding objections and inspection report paras. In the Secretariat Level meetings, Sr.DAG/DAG will represent the PAG/AG whereas in the department level meetings the Sr. Audit Officer dealing with the Department will participate.

3. Based on the deliberations in the Audit Committee meeting, objection for which replies have been received from the department can be considered for clearance. The following instructions may be followed by the Sr. Audit Officer attending the Audit Committee Meetings at departmental level:

Only Inspection Reports for which first replies have been furnished should be taken up for discussion;

Important policy questions / accounting procedures a commitment about which in the Audit Committee meetings may affect the future policy of the department in respect of objection should not be dropped at the Audit Committee meetings. The departments may be informed that these will be examined and a suitable reply would be furnished for them.

(a) A schedule of Inspection Reports/ paras to be discussed in the meeting should be forwarded to the department official and these should be discussed before the meeting.

(b) Minutes of the meeting should be prepared and submitted to the Group Officer after the meeting.

The PAG/AG should bring to the notice of the Heads of Department demi-officially every quarter and to the notice of the Secretary of the Administrative department demi-officially every six months all important audit objections/paras of local audit of inspection reports which have not been included in the printed Audit Reports placed before the government for discussion by the Sr.DAG/DAG, concerned with the secretary of the department, in Audit Committee with a view to seek early settlement of the audit objections

In order to watch the progress of clearance of inspection reports and paras through Audit Committee meetings and to monitor the working of the system, the Sr. Audit Officer of OAD Section concerned should give a report in the following format, to APM Section as soon as the Audit Committee is over. A copy of the minute of the Audit Committee meetings when received from the department should also be forwarded to APM Section.

Audit Committee Meetings of Department
Report to APM Section

OAD

Dated:.....

Name of Department	Whether the meeting is Secretariat Level or Departmental level	Name of officer attended representing AG (Audit-I)	Venue of meeting	Date and Time	No. of IRs and paras proposed for clearance	No. of IRs and paras actually cleared.
1	2	3	4	5	6	7

Sr. Audit Officer/OAD _____

APM section shall maintain a Register for noting the details of Audit Committees held and clearance of IR paras. The secretariat level and departmental level meetings should be shown separately in the register.

8.14 Material for the Audit Report

With a view to ensuring that important objections are finalised and brought to the notice of the Legislature through the Audit Report on Appropriation Accounts at the earliest opportunity, the following instructions have been issued for the guidance of local and central staff;

Specially serious irregularities, which are prima facie for inclusion in the Audit Report should be given special treatment and should never be mixed with items of lesser importance or dealt within a routine manner. The inspecting Officer/AAO, before writing up his report, should pick out such cases.

If such irregularities have been factually established to his satisfaction, after reference to all the initial records of the office, they should be worked up into draft paras straightway for inclusion in the conventional Audit Report. The draft paragraphs thus prepared on the spot should be discussed with the head of the Office/Department and invariably their views obtained and recorded. The preliminary exchange of view with departmental Officers would not only facilitate acceptance of the facts mentioned in the draft paragraph but also give an opportunity to ascertain their view point and form a fair appreciation of the cases commented upon.

In order to decide whether cases mentioned in the Audit Report, the circumstances of consideration on which the department took a certain course of action which is proposed to be commented on, should be brought out clearly in brief accompanying the para.

The draft para, duly accompanied by copies of all orders referred to, replies to preliminary objection memos issued, extract of the para included in the Inspection Report, another relevant orders on the basis of which the irregularity is sought to be

commented upon, should be sent to the PAG/AG by name and copy sent simultaneously to the Sr.DAG/DAG.

Lying on the table of the Legislature Audit Reports on the account of any particular office other than those submitted under Article 151 of the constitution of India.

8.15 Report of important financial irregularities:

(i) Cases of important irregularity or any other matter of importance of the type enumerated in Annexure- II of M.S.O.(Audit)Second Edition-2002 which are noticed during a local inspection, should be reported to the State or Central Government as the case may be for their comments before they are included in the Report of the C.A.G. of the respective Governments.

(Annexure II -referred to in para 7.3.26 of MSO (Audit) Second Edition-2002)

(ii) The requirements of the Report of the CAG should always be kept in view when the concerned Dy. Accountant General of AMG groups or the Sr. Audit Officer approves the inspection reports. Orders should be passed at this stage whether the paragraphs noted by Inspecting AAO or the Supervising Officer on the title sheet of the Inspection Report for inclusion in the Register of Financial Irregularities are suitable for the purpose. Points which are fit for inclusion in the Report of the CAG should be dealt with by special letters, straight from the beginning at an appropriate level. An inspection report should not be issued unless and until the paragraphs containing important irregularities (*Form-XII*) have been noted in the register and action taken as above so that the points may further be pursued with Government for eventual inclusion in the Report of the CAG. In order that all the information required for the Report may be available in the Register, the name and designation of the officer responsible for the irregularity should invariably be entered in Column 7 of the register and a brief note of the disciplinary action taken made in column 9 under the heading "Orders of Government".

(iii) The facts connected with the irregularities should be got verified by the departmental officer, so that they may not be challenged when a draft para based on them is proposed. For this, a Statement of Fact (SOF) should be issued to the Secretary to Government in Administration Department by a D.O. letter calling for reply within six weeks. If reply is received within this period, the draft para may be modified incorporating the replies. It is of great importance that materials included in the Report are accurate. After getting the facts thus verified, a para may be drawn up and after approval by the Dy. Accountant General/ AMG-II, submitted to the Pr. Accountant General (Audit-I) through the Report Section. The final paragraph as approved by Pr. Accountant General (Audit-I) will be communicated by Report Section to the Administrative and Finance Department for acceptance of facts contained in the draft paragraph.

8.16 Cases fit for inclusion in the Reports

(i) An illustrative list showing the subjects fit for inclusion in the Report is given in Annexure II referred to in Para 7-3-26 of M.S.O.(Audit) Second Edition-2002.

Individual cases of irregularity should be mentioned in the Report only when they are really important, as involving serious transgression of rules or orders leading or likely to lead to loss of public money or serious breach of audit procedure or safeguards. Petty cases involving losses not exceeding the amounts as may be fixed from time to time should not ordinarily be reported unless they reveal any serious defect in rule or system or affect the bonafides of the office connected with the transaction. If there are a number of cases of financial irregularities of the same nature occurring in the same department not exceeding the above money limit which may produce on appreciable cumulative effect, they should be mentioned in a single paragraph of the report.

(ii) When any case of financial irregularity relating to Central subjects is noticed the orders of the Group Officer concerned should be taken whether the case is of sufficient importance for inclusion in the Report (Central) and he should be kept informed about the progress of the case from its inception till a draft paragraph on it is prepared for the Report. A copy of the draft paragraph should be supplied to the authorities for consideration and comment. After the comments from the Administrative authorities or the Finance Department have been received, the final draft of the paragraph for the Report should be prepared and copies supplied to the same authorities.

8.17 Inadequacy of financial or accounting rules

(i) Cases of inadequacy of rules or absence of administrative regulations sufficient to secure a proper and effective check upon monetary transactions are subject matters for comment in the Report. If the inclusion of such cases is approved by the PAG/AG, they should be entered in the Register of Financial Irregularities and dealt with in the manner described in the preceding paragraphs.

(ii) When there is much delay on the part of the local Government in issuing any financial or accounts rules suggested in audit, the fact should be suitably mentioned in the Report unless the PAG/AG considers that the rules to be framed are not so important as to cause any serious loss of efficiency, etc. or is satisfied that there will be no further delay. The causes of delay should be clearly stated, especially in those cases in which it would be unfair to comment without indicating the causes.

8.18 Comments on Store accounts

Where store accounts are exhibited in the Appropriation Accounts of Government, comments regarding their correctness or other aspects when the store accounts are audited, may be made in the Appropriation Accounts with reference to the points mentioned in paragraph 8.21 of this Manual to assist the Public Accounts Committee in the investigation into the stores transactions.

(CAG's Letter No. 268-Rep/80-83 dated 23-9-1993 and para 52 of the AAD Manual).

8.19 Questionnaire on the maintenance of cash and stores:

In order to enable the local audit party to watch the adequacy of proper maintenance of cash and stores in civil offices, a questionnaire has been evolved for their guidance (see *Appendix-IV*). The questionnaire duly filled in may be submitted to the Headquarters along with the inspection report.

8.20 (a) Guidelines for drafting of paragraphs

CAG's Office has issued a "Style Guide" for introducing uniformity in the drafting/reporting style of the Audit Reports. The instructions contained in the Guide may be followed while drafting the Audit Reports

(CAG's Letter No.113-Audit(AP)/6-2003/348 dated 27-8-2003)

The following instructions should also be borne in mind while preparing draft paragraphs for inclusion in the Audit Report:

- (i) The draft paragraphs should not be very lengthy and should not include unnecessary material.
- (ii) They should give all relevant information with dates wherever necessary and lay correct emphasis on the exact points to be brought out.
- (iii) All words and phrases likely to cause resentment or unpleasantness should be avoided.
- (iv) The paragraphs should be worded in a detached and dispassionate language so that, the facts speak more than the comment.
- (v) The words "Audit Comments" or the qualifying words such as "Audit thinks that" or "Audit comments on" are unnecessary and should not be used in the draft paragraph.
- (vi) The names of the Departments, Organisations and parties connected with the irregularities should be mentioned in the paras except where the para bring out some fraud or misappropriation on the part of an official and departmental and criminal proceedings are taken against him so as not to give a clue to his identity. Names of individuals should not however be mentioned; only the designation should be given.
(CAG's Letter No. 3724/Rep/385-69 dated 4-12-1960 case AA/54-1/56-60 Vol.VI)

(vii) The responsibility of the departments concerned for the irregularity should be brought out in the para by including information on the following points:

- (a) Did the matter come to the notice of the Finance Department at any stage? If not, was it due to lack of vigilance? If so, the position should be clearly brought out.
- (b) What was the action suggested by the Finance Department?
- (c) Did the administration follow this advice?
- (d) If so, did the irregularity or loss take place in spite of following the advice?
- (e) Did the Finance Department take or suggest any action after the irregularity had taken place?

(CAG's Letter No. 547/Rep/58-61 dated 24-2-1961 Case AA 51-1/60-61)

(viii) The emphasis should be on quality rather than quantity and on analysis rather than mere narration.

(ix) The thrust of the paragraphs and reviews should come out clearly, Reviews and paragraphs should be concise, unnecessary descriptive material should be cut out and the facts stated should be brought out in sharp focus with adequate thrust. Only matters of public importance should be incorporated.

(D.O. No. 792-Rep/294-78 dated 23-8-1978 and No. 621/Rep/125-79 dated 4-5-1979 of Addl. Dy. CAG Case Rep.I/54-1/Vol.XXI & XXIV)

- (x) The paragraphs should not be cluttered with information not relevant to the points sought to be made.

(HQrs. D.O. Letter No. 1009-Rep/83-72 dated 5-6-1972).

8.20 (b) Processing of draft paragraphs for the Report of the Comptroller & Auditor General (Audit-I)

- (i) Functional wings of AMG groups should ensure that draft paragraphs and ECPA Section should ensure that Scheme reviews processed by it after approval by the Group Officer are sent in a phased manner to Report Section before the prescribed due date.

(As per minutes of meeting held on 28.02.2014, it was decided to now onwards the concerned Group Officer would have to propose the Draft Paragraphs complete in all respect to the Pr. Accountant General)

- (ii) Section of Functional wings of AMG groups should submit the draft paragraphs first to the Group Officer and after approval by him send them to Report Section after observing the procedure mentioned in 8.15 (iii) together with the original files containing the notes leading to the draft paragraph. The section should also invariably furnish to Report Section one attested copy of all the references cited as keys to the para, in every case.

Where the remarks of Report Section on specific points or particular aspects are considered essential before finalisation of paras, the relevant files may, after obtaining the orders of the group officer, be referred to Report Section.

- (iii) The Comptroller and Auditor General of India has reiterated that the view point of the departmental heads/ Government should be ascertained in all cases before audit comments are proposed, as otherwise a dispassionate and objective analysis of the relevant factors may not be possible. However, in regard to cases where the departments concerned / Government fail to intimate their views within a reasonable time, paragraphs can be attempted without waiting for their views. If any irregularity brought to light by Audit had been noticed earlier at the departmental / Governmental level and necessary corrective action initiated, that aspect should receive due consideration in Audit, while processing such cases for draft paragraphs.

- (iv) Cases relating to old period, need be processed for the Report for the year only if the factors involved are likely to be of interest to the Public Accounts Committee.

- (v) Functional wings AMG groups should take special efforts to ensure that draft paragraphs arising out of Inspection Reports issued till the end of March of the year are processed by 1st August of that year at the latest.

- (vi) The following points should be kept in view while processing draft paragraphs/ scheme reviews:

- (a) The paragraphs should be clear and concise and should give a correct and factual account of the points in plain impersonal language so that a person not well-versed in the details of accounting and audit is able to comprehend the points sought to be made. Long narration unnecessary for the main theme of the para should be avoided, the

emphasis being on clarity, precision and quality. This applies to reviews also where the introduction must be brief and to the point containing mainly the material necessary to understand the scheme or project and for comprehending the points sought to be made subsequently in the review. Long and complex paragraphs / review should end with a summing up bringing in sharp focus the major points.

Each statement / figure in the draft para should be supported by key documents. The draft para should be properly referenced indicating the page number of the relevant document in the key file to which the observation / comment could be linked.

(b) Comments on a scheme or project which failed to produce the expected results should be based on an in depth analysis of the relevant factors like adequacy or otherwise of initial planning, defects in execution due to lack of co-ordination., deficiencies in organisation/ procedures etc. In short, audit appraisal should highlight defects in systems, inadequate survey etc.

(c) Shortfall in achievements or results derived from schemes/ projects may be indicative of unrealistic projection of cost benefit figures based on incomplete and inadequate studies and data. To what extent the data based on which the scheme/ project was prepared had been defective/ incomplete should be analysed and indicated in the draft paragraph briefly. The consequences of defective estimation, delay in execution, etc. should also be pin-pointed wherever necessary. In cases where schemes/projects are taken up on the basis of inadequate studies, that aspect should be specially brought up.

(d) Apart from statistical presentation of facts and figures, scheme reviews should contain a critical analysis of reasons for variations from prescribed norms, targets, estimates etc. The analysis should bring out the various factors leading to the shortfall like lack of proper co-ordination, non-availability or inadequate flow of funds, abnormal climate, non-availability of suitable land, equipment, personnel, etc.

(e) In reviews, attempt should be made to assess the achievements of social benefits from the scheme.

(f) All important dates should be indicated in the narrative for proper appreciation of the various decisions taken by the concerned authorities in the correct chronological sequences. Similarly copy of all connected documents should be collected and referenced properly.

(g) Points which may be of interest to the Public Accounts Committee should be highlighted. In fact, the approach should be to process cases from the angle in which the committee is likely to view them. The data given in each para should be self-contained so that it may be possible for the Committee to come to definite conclusions and make meaningful recommendations.

(h) Along with each para a write up indicating the organisational frame work in which the scheme was to be executed, the rules/ orders which were to be complied with, the agencies through which the scheme work was to be implemented, how the scheme/work was to be phased during execution etc. should also be furnished to have a better appreciation of the case.

(i) Each draft paragraph should clearly indicate where, when, how and why things went wrong; and also incorporate wherever possible, the department's view in the matter.

(j) Special Cell should ensure that draft paras incorporating results of audit under Section 14/15 of the Comptroller and Auditor General's (D.P.C) Act, 1971 are prepared keeping in view the extant instructions on the subject.

(k) While commenting on the implementation of Centrally sponsored / Centrally aided schemes in the State Audit Report it should be specifically stated whether the figures of expenditure incurred on the schemes mentioned in the para are 'account figures' or 'departmental figures'. In cases where departmental figures are quoted, it should be stated:

1. Why the account figures cannot be given;
2. Whether the figures of expenditure on the schemes have been certified by Audit for adjustment against the specific grants / loans released by Government of India for the schemes; and
3. Whether the unspent balance has been refunded.

(l) The sections proposing the draft paragraphs should ensure that the figures of extra expenditure/ losses etc. or of other amounts included in the draft paragraph have been worked out correctly and should also enclose a statement duly authenticated showing the calculations by which the amounts have been arrived at.

(m) To eliminate petty items from the Audit Reports, Headquarters have instructed that draft paragraphs involving Rs.75 lakh or more only need be finalised for inclusion in the State Civil Audit Report. As an exception, draft paragraphs for amounts less than Rs 75 lakhs may be proposed if they present special features, e.g. instances of system failure, etc.

(vide Head quarter's letter No. 353-Rep(S)/175-2000 dated 19-4-2001)

(n) Instructions issued by headquarters and endorsed by Report Section from time to time should be scrupulously adhered to while processing material for the Civil Audit Report.

(o) Extra expenditure due to failure of the departments to avail themselves of DGS&D rate contracts should be highlighted wherever possible.

Report Section will issue separate circulars/ notes to Sections concerned fixing due dates for submission of material for routine/ statistical paragraphs to be included in the Report for each year. Group / Branch Officers should ensure that the due dates fixed in such cases are scrupulously adhered to by the Sections.

(Circular No. Rep. I/ 53-3/87-88 dated 20-3-1987)

8.21 Instruction for improving the quality of Audit Report

Audit Report contains the quintessence of Audit findings. It is with reference to the contents of the Audit Reports that the Legislators and the Public judge the performance of Audit. The quality of Audit Reports therefore needs continuous improvement. With this object in view the following instructions have been issued:

(i) A data Bank Cell to function as a treasure house of information and data useful for conducting reviews/ investigations shall be started as part of Report Section. For feeding documents / data to the Data Bank, the following procedure is to be followed.

(a) Newspapers and periodicals purchased by the Main Office are to be circulated to the Cell for taking clippings and filing them subject-wise.

(b) Extracts / copies of budget documents / important Reports are to be supplied by the concerned sections to the Cell for being kept in the Data Bank.

(c) In addition to the usual copy, one extra copy each of all important orders is to be endorsed to Report Section by the concerned sections so that the extra copy can be kept in the Data Bank.

(d) Copies of enactments, bills, ordinances, important statutory notifications, etc. are to be stored in the data bank cell. For this, the following procedure is to be adopted:

From one copy of each State Gazette, General Section should detach the portions containing enactments, (both Central and State), bills, ordinances, statutory notifications etc. and get them bound in convenient volumes. The bound copies are to be furnished to the Cell for preservation and reference.

(e) The Cell should prepare a subject index of the collections for easy reference,

(ii) Before an audit party commences any major review or inspection, the Group Officer may, wherever necessary, discuss the various aspects of the proposed audit and review with the party and issue them suitable guidelines. The guidelines so issued should be meticulously followed by the parties while conducting review / local audit. In the case of reviews, the guidelines may be issued in the shape of an Audit Plan covering the following points:

(a) Background material

(b) Objective of the review

(c) Areas to be covered

(d) Points to be seen

(e) Information to be collected

(f) Method of analysis of information

(g) Objections likely to be noticed

(h) Time frame for completion of review

(iii) In order to enable the PAG/AG to assess the quality of contribution made at various levels, in identifying and processing audit findings the PAG/AG will test check some Inspection Reports every quarter. In order to enable the PAG/AG to select the Inspection Report for test check, OAD Sections and other sections dealing with Inspection Reports should submit to the Pr. Accountant General quarterly on 10th of April, July, October and January the "Register of Performance cum selection of Inspection Reports for review by A.G."(*Form-XV*), with all details as required in the column provided in the register. The Inspection Reports selected should be submitted to the Pr. Accountant General within 3 days of their selection with the list of Inspection

Reports selected by PAG/AG and copies of remarks of PAG/AG, if any, in the register and replies thereto of the section authenticated by the Group Officer.

(iv) There should be a system of selecting a scheme for audit / brief review by each inspection party. OAD Sections / other headquarters sections dealing with inspection reports will identify such schemes for brief reviews. In case the brief review throws up important points, the scheme should be suggested to EPCA for conducting an overall review.

(v) Every year one or two departments shall be selected for intensive and incisive review by EPCA parties. Such reviews should deal with interalia

- (a) The systems for budget preparation and expenditure control,
- (b) Procedure for sanctioning works, schemes, etc.,
- (c) Machinery and methodology for monitoring performance,
- (d) Actual performance, etc.

It should also include the results of comprehensive manpower audit which will deal with

- (a) Development of work norms and standards,
- (b) Forecast of staff requirements,
- (c) Sanction of posts,
- (d) Recruitment,
- (e) Utilisation of manpower
- (f) Effectiveness in dealing with staff claims and complaints,
- (g) Delays and ineffectiveness in dealing with disciplinary cases,
- (h) Training activities etc.

The review will be monitored by EPCA (Headquarters).

Local audit parties may also include comments on the above aspects in the Inspection Reports pertaining to the offices inspected by them. Extracts of such paragraphs should be furnished by OAD sections periodically to EPCA section along with a brief summary for incorporation in the review.

(vi) Horizontal reviews of certain functions (like manpower management, material management, computerisation monitoring of implementation of Plan Schemes) cutting across all the departments can also be attempted. Selection of topics for such macro reviews will be made by EPCA section in consultation with Report Section keeping in view the instructions if any issued by Headquarters. Once the topics are selected, EPCA section is to advise the field parties to look for points germane to the review. Each audit party should furnish along with the draft Inspection Report, a special report on the aspect selected for the macro review, OAD sections will keep these special reports department-wise and prepare a review by the end of June every year. The reviews along with the folders are to be sent to Report Section by 15th July.

(vii) The impact of each scheme on the general public as a whole, should be brought out in reviews. The reasons for non-achievement of targets should be analysed in department and included in the reviews.

(viii) Review parties should, after in-depth study of implementation of each selected scheme, make recommendations for improving procedures and practices to secure

systems improvement in the Auditee organisations. Their recommendations should be included in the review report so that they can be further processed and incorporated in the Audit Report. Positive aspects noticed in the course of systematic review should be appropriately mentioned in the Review Reports so that they can also be included in the Audit Report wherever justified.

(ix) Graphs, charts, photographs etc. can be incorporated in the Audit Report for clarifying points sought to be commented/ stressed. OAD Parties/ review parties are to bear this in mind and furnish approved sketches, maps, photographs, etc. so that they can be incorporated in the Audit Report for elucidating facts, besides making better visual impact.

(x) Draft paragraphs / review should be drafted in simple language. Efforts should be made to reduce use of passive voice and complex sentences and avoid verbosity, brackets, parenthesis, extraneous information etc.

(D.O. Letter No. 1453-Rep (C) 99-87 dated 17-8-1987 from S.S. Ahmed, Addl. Dy. CAG).

Annexure-I

[Please see Para 8.06]

CATEGORISATION OF PARAS IN INSPECTION REPORTS AUDIT-I

(vide CAG's Letter No. 207-Audit(A)/16-2004 dated 22nd November, 2004)

Sl. No.	Broad heading / Category of paragraph	Nature of Audit observation	
1.	Fraud / misappropriation / embezzlement / losses detected in audit	(i) Cases of embezzlement of cash drawn from treasury	A1
		(ii) Non-accounting / misappropriation of departmental receipts i.e. non-remittance into treasury	A2
		(iii) Excess amounts fraudulently drawn by tampering with or manipulating figures in salary bills.	A3
		(iv) Fraudulent drawing of G.P. Fund of various employees who had not applied.	A4
		(v) Utilisation of departmental receipts towards expenditure	A5
		(vi) Losses to exchequer due to theft, pilferage and shortages of stores	A6
2.	Recoveries at the instance of audit and overpayments detected in audit	(i) Recoveries of service payment like pay and allowances, T.A.	B1
		(ii) Excess payment to contractors due to application of higher rates for work done, etc.	B2
		(iii) Quantities of stores/works Received/executed less than those paid for, resulting in overpayments.	B3
		(iv) Overpayments on account	B4

		of errors of computation	
	(v)	Overpayments due to application of or allowing incorrect rates.	B5
	(vi)	Allowing payment of charges such as carriage etc., in violation of terms of agreements.	B6
	(vii)	Overpayments on account of excess pay and allowances or payment of inadmissible allowance	B7
	(viii)	Excess payments of pension, etc. by Treasuries / Banks	B8
	(ix)	Non-recovery of instalments towards various loans.	B9
	(x)	Non-recovery / Non-deduction of Income Tax or Service Tax as source	B10
	(xi)	Payment of subsidies / assistance in excess of norms fixed.	B11
3.	Violation of contractual obligations. Undue favours to contractors	(i)	Backing out by contractors resulting in extra expenditure. C1
		(ii)	Non-imposition of penalty and recovery of extra cost from contractors involved in above cases. C2
		(iii)	Payment of interest free advances in violation of agreement. C3
		(iv)	Release of key material on credit basis instead of cash basis C4
		(v)	Penalties not levied for delay in execution / completion of works within stipulated time. C5

		(vi)	Non-recovery of supervision charges.	C6
		(vii)	Non-recovery of salvaged material	C7
4.	Avoidable/excess expenditure	(i)	Delay in execution of works resulting in time and cost overrun and consequent extra expenditure	D1
		(ii)	Delay in obtaining Customs clearance etc. for imported equipment resulting in increase in cost or payment of avoidable demurrage charges.	D2
		(iii)	Cost escalation due to improper and inadequate planning.	D3
5.	Wasteful / in fructuous expenditure	(i)	Abandonment of works due to defective or disputed sites and structural / design defects. etc.	E1
		(ii)	Non-utilisation of assets created for specific purposes.	E2
		(iii)	Non-achievement of specific objective for which expenditure was incurred	E3
		(iv)	Supply of defective stores / stock articles like time barred / sub-standard medicines, seeds, etc.	E4.
6.	Regulatory issues	(i)	Expenditure incurred without sanction from competent authority	F1
		(ii)	Expenditure split to avoid sanction of competent authority or calling for tenders, etc.	F2
		(iii)	Expenditure incurred in	F3

- excess of budget provision resulting in creation of liabilities.
- (iv) Execution of works or procurement of supplies without adequate budgetary provision resulting in creation of liabilities to be met from next budget. F4
 - (v) Diversion of funds from one scheme to another or from one objects head to another. F5
 - (vi) Drawing of funds at the far end of financial year with a view to avoid lapsing of funds. F6
 - (vii) Rush of expenditure towards the far end of financial year resulting in non-exercising of financial control/ checks. F7
 - (viii) Drawing of funds at the far end of year without immediate disbursement and their parking in bank accounts, PL Account or retention in cash/bank drafts. F8
 - (ix) Incurring of expenditure on banned items or items of special nature without approval of competent authority. F9
 - (x) Non-observance of austerity measures announced by Government from time to time. F10
 - (xi) Payment of rent of hired buildings without approval or fixation of rent by Rent Assessment Committees. F11

		(xii) Engagement of daily wagers in violation of Government orders and payment made to them without orders of competent authority.	F12
		(xiii) Execution of works without obtaining administrative approval/technical sanction from competent authority.	F13
		(xiv) Purchase of stores/stock in excess of actual requirement with a view to avoid lapsing of funds.	F14
		(xv) Payments made on hand receipts in contravention of Rule 200 of Public Works Account Code.	F15
		(xvi) Execution of works in excess of estimate, unrealistic preparation of estimates.	F16
		(xvii) Procurement of material/execution of works without observing codal provision of invitation of tenders, etc.	F17
7.	Idle investment / idle establishment / blockade of funds	(i) Expenditure incurred on purchase of stores not required for immediate use and not put to use for long periods.	G1
		(ii) Expenditure incurred on execution of works/construction of buildings, etc., which could not be put to use owing to reasons which could be foreseen.	G2
		(iii) Expenditure on activities/schemes which	G3

		could not be completed/ implemented for various reasons.	
		(iv) Expenditure incurred on purchase of equipments including imported ones, not put to use for want of trained manpower, missing spares, defective supplies and assessment of the feasibility of procurement.	G4
		(v) Funds advanced to various agencies for supplies or construction works retained unauthorized by such agencies.	G5
		(vi) Payment of idle wages to staff whose service could not be utilized for the purpose for which appointed due to excess staff or lack of work for such staff.	G6
		(vii) Release of funds for activities without ensuring availability of adequate infrastructure.	G7
8.	Delay in commissioning of equipment	(i) Due to non-availability of necessary infrastructure.	H1
		(ii) Due to unavailability of trained manpower.	H2
		(iii) Due to non-availability of spare parts or accessories.	H3
9.	Non-achievement of objectives	(i) Comments on shortfall in achievement of targets.	I1
		(ii) Tardy implementation of schemes.	I2
		(iii) Non- fulfilment/achievement of objectives for which a programme was launched	I3

		or an organization created.	
		(iv) Non-accrual of intended benefits to targeted population.	I4
		(v) Comments on mismatch between financial and physical achievements.	I5
		(vi) Comments on less production/yield compared to expected production/yield.	I6
14.	Miscellaneous observations	(i) Departmental specific irregularities / observations not covered in any of the above	J1
		(ii) Departmental specific irregularities/ observations not covered in any of the above.	J2
		(iii) Retention of heavy cash balances.	J3
		(iv) Belated remittances of receipts into treasury.	J4
		(v) Comments/observations on maintenance of records.	J5
		(vi) Comments on improper/non-maintenance of records.	J6
		(vii) Comments on submission/non-submission of utilization certificates.	J7
		(viii) Non-recovery/non-adjustment of Miscellaneous Public Works Advances from officers, other Government departments and private parties.	J8
		(ix) Non-crediting of deposits lying unclaimed for more than 3 years to	J9

Government.

- (x) Reconciliation not being done with agencies supplying stores etc. where centralized system of purchase of stores exists. J10
- (xi) Non-recovery of hire charges of machinery etc., let out or material supplied where centralized system exists. J11

CHAPTER-IX

AUDIT QUALITY MANAGEMENT FRAMEWORK

9.01. Operationalization of Audit Quality Management Framework: The Comptroller and Auditor General of India has approved an Audit Quality Management Framework (AQMF) for Indian Audit and Accounts Department as **Annexed-A**. This Framework includes all the elements and instruments related to audit quality that provide an assurance of quality in the audit function. The orders and guidelines of AQMF have been circulated by the O/o CAG Letter No- 172 Audit (AP) 37-2008 Dated: 04.06.2009

9.02. Nature and Scope of Audit Quality Management Framework: Framework of AQMF has been prepared in the backdrop of the Audit Quality Assurance Guideline brought out by ASOSAI. A Task Force underwent into the extent of these guidelines and recommended adoption of an umbrella framework for Audit Quality Management (AQMF) which would map various existing Key Instruments to be Employed (KIEs) for audit quality assurance viz. the CAG (DPC) Act, Auditing Standards and some of the Manuals and Guidelines issued with main Audit Quality Management Elements (AQMEs). The Framework identifies the policies, practices and guidance on the five broad parameters of the quality management processes viz. (i) leadership and direction (ii) human resources management (iii) audit management (iv) clients and stakeholder relations and (v) continuous improvement. The quality framework has been developed in such a manner as leaves ample scope for incorporation of the best practices in future and lends itself to continuous up gradation in respect of new audit methodologies and practices develop. All the five broad parameters of quality management processes referred as above have been further divided into various Quality Management Elements (QMEs), for example in the case of parameter on ‘audit management’ the QMEs include audit planning, staffing for audit, conducting of audit, evidence, documentation, reporting etc. The operationalization of AQMF will involve issue of appropriate internal instructions to various Functional Wings and in turn by each Functional Wing to field offices under their control to ensure appropriate customization of the AQMF with each stream of audit viz. Civil, Commercial, Defence, Railway, Revenue etc.

9.03 Level of audit related literature: During the course of implementation of the instructions a clear hierarchy of audit related literature will be established as mentioned here. **Level-I.** The Constitutional provisions and the CAG (DPC) Act and Regulations. **Level-II-** Standards and generic manuals/guidelines that have been brought out by Audit Wing and have universal application. **Level III-** Supplementary manuals of instructions and guidance and practice notes that each Functional Wing may bring out clearly drawing upon and expounding upon Level I and II literature/standards and **Level IV-** The local manuals/circulars/orders which each office may bring out to supplement **Level III** literature.

9.04 Reviewing, reformulating and integrating of literatures: Respective streams of audit like civil, defence, railways, commercial, revenue, scientific, local bodies etc. as well as field audit offices are required to formulate and elaborate internal instructions in

accordance with the principles outlined in the framework as indicated. While reviewing, reformulating and integrating all technical literature in the above manner, parentage and grand of each manual, guidance/practice notes and circulars/instructions will be clearly delineated against the higher levels of literature/standards as indicated above. Change in a KIE should be made or a clarification issued only by the authority that has brought it out in the first place and no change in a KIE should be in conflict with a corresponding KIE of higher level. Thus, where a change constitutes a deviation from a standard or generic manual/guidelines issued by Audit Wing, no circular etc. for effecting such a change should be issued without the concurrence with the Audit Wing. As far as possible, all future changes or revisions in manuals/guidelines etc. should be communicated by the authority that has issued the original manuals, guidelines, etc. through correction slips only instead of through random circulars, instructions etc. The action required as above may be completed by 31st March by Audit Wing and the Functional Wings at Headquarters Office and by 30th September by all field audit offices. For the purpose of ensuring adherence to this target date, the Functional Wings and field offices are required to draw out a plan of action with definite time lines. Any additional human resources if required for this purpose may be carefully identified and assigned exclusively for the task within the existing staff.

9.05 Annexure-A: Guidelines and Extent of Audit Quality Management Framework

1. Introduction: The process of managing audit quality is a means of ensuring that audit is planned efficiently, executed effectively and the audit product meets the benchmarks of the department and the needs of clients and stake holders. This guideline attempts to list out steps to be taken at different stages of the audit process in a generic manner so as to ensure quality of audit. Building of these aspects into the audit cycle at all stages and all levels would enable us to move from an emphasis on quality control of an individual audit product to one of continuous quality assurance. The broad objectives of quality assurance are to ensure that (i) Controls are in place at all stages of the audit cycle including planning, execution, reporting and follow up (ii) Controls are properly implemented (iii) In built mechanism to review and update the controls exists constantly.

2. Five Major Elements: While the framework brings out various measures required to ensure quality control and assurance in audit, this has to be read with and supplemented by auditing standards, existing audit manuals, guidelines and instructions to have a complete and exhaustive description of auditing principles, processes and practices followed in different streams of audit like civil, defence, revenue, commercial, railways, scientific etc. Being an evolving document, the framework lends itself to continuous up gradation in line with the technological changes and development of new methodologies and practices. AQMF governing the SAI should generally consist of five major elements of 'leadership and direction', 'human resources management', 'audit management', 'client and stakeholder relations' and 'continuous improvement'. In public audit, quality management involves a system composed of the audit organization, the auditors and the audit process, all working together to produce outputs that fulfil the

requirement of its stakeholders and the general public. Continuous improvement in the quality of audit by focusing on the needs of clients and stakeholders is the underlying principle behind the audit quality management system or framework. It is essential that SAI should have quality management policies & procedures in place and should ensure that these policies and procedures are subject to a review mechanism.

3. Reasonable assurance about the quality audit work and results of audit: The present framework attempts to concentrate largely on measures and procedures carried out within the audit process that would provide a reasonable assurance about the quality of audit work and the results of audit. It covers all audit products and results of audit from audit notes, inspection reports and management letters to audit reports sent to the government and finally presented to legislature. The framework or the basic structure also includes quality practices and measures to be followed in all audits like financial audit, compliance audit and performance audit conducted in the department of civil, commercial, defence, revenue, railways, scientific, posts and telecommunications, local bodies etc. The framework is divided into two broad sections: I-Audit Planning, Execution, Reporting and Follow-up and II-Continuous Improvement through Technical Inspection, Peer Review and Lessons Learnt Process.

4. Audit Planning: Audit planning is expected to be strategic to fit into the long term and short term goals of audit. These goals would need to be identified and framed in consonance with the overall ‘Vision and Mission Statement’ of the Department with the specific targets and goals of individual wings/offices. Within the strategic plan for audit and annual operational plan for all audits to be conducted in a financial year is drawn up in the field offices. The annual audit planning broadly comprises of risk assessment, selection of units, assignment planning etc. The quality measures, procedures and practices set out below are related to operational plan for all audits and planning for individual audit assignments.

5. Electronic database of auditee profiles: This is the foundation of audit planning. It is, therefore, important to maintain comprehensive and current information on all entities to be audited so as to target the right units. This database/knowledge repository which should be maintained electronically is to be utilized in a scientific manner by applying tools such as risk assessment techniques to enable an objective and unbiased selection of auditee units. Information available from the Vouchers Level Computerization (VLC) database should be used for audit planning and data from various e-governance initiatives undertaken by entities.

6. Materiality and risk assessment: The audit plan should be based on clear risk assessment, materiality and priority. The overall significance of the auditee based on factors such as financial size or the effect of its performance on the public at large or issues of national importance would be a major factor in prioritizing the audits. These could include previous audit experience, visibility of the subject, audit-ability of unit and expected audit impact.

7. Audit objectives, scope and methodology: Once the selection of auditee unit has been made, specific audit objectives should be drawn up which would govern the

manner in which the audit is to be carried out. These could include reporting compliance with rules and procedures, forming an opinion on the financial statements and assessing the performance of the auditee and its programmes. The audit objectives along with the risk profile of the auditee, the level of assurance required and available audit personnel would help determine the scope of audit, sample size and the composition of the audit team. Quality at the stage of audit planning can be enhanced by regular interactions between top management and other team members/officers involved in the audit process to ensure that all critical area have been adequately addressed. Audit methodology should be designed in such a fashion as to provide sufficient competent and relevant evidence to achieve the objectives of the audit.

8. Focus on criteria: Audit criteria and evidence required to be gathered are to be decided upon following the audit objectives and in accordance with the broad parameters laid down at the stage of audit planning. Audit criteria can be broadly defined as a benchmark or a standard to assess the work of the auditee on financial statements, compliance and performance related issues. The audit criteria can be prepared in several forms by establishing certain broad parameters or as a checklist or as a set of questions for examination.

9. Identification of key risk areas and statistical sampling techniques: Key risk areas should be identified for focused attention during the audit and scientifically designed sampling techniques used for determination of sample size.

10. Scheduling of audit: Allocation of time for the audit of each unit is dependent on the audit scope, manpower availability and other relevant departmental instructions contained in Manuals/Guidelines etc. The actual scheduling of audit should be subject to the mutual convenience of both auditor and auditee.

11. Training and capacity building: Training of staff should be taken up regularly so as to continuously upgrade skills and keep pace with changes in audit methodologies, techniques and tools. Training activities could include in-house training programmes, seminars and workshops as well as on the job training, training at RTIs and for senior officers at NAAA/iCISA. The programmes should be standardized and structured to ensure uniformity and quality and overall effectiveness of training assessed periodically. It should be ensured that officers trained in a specific area are retained in related audit for a reasonable period. 'Training Needs Analysis' would help in identifying gaps in knowledge, skills and ability for more focused and purposive training programmes for staff.

12. Staffing for the audit-skill & knowledge of audit personnel: Domain knowledge of the audit subject is a critical element of the audit quality management framework and the skills and experience of the staff deployed on the audit are expected to be commensurate with the requirements of the task. Offices should maintain an inventory of skills of its audit personnel which would enable them to match the task with required skills. Gap analysis to determine whether all skills required for carrying out the audit are available in-house or can be built up by courses/training programmes in Regional Training Institutes or at higher management levels should be carried out. This

is essential to decide on the need for appropriate experts/consultants to advise on key aspects of the audit like selection of sample, issues for examination, audit methodology etc. In the event of deciding to hire experts/consultants, any existing orders or guidelines of the Department should be referred to.

13. Assignment of personnel: There should be reasonable rotation of assignments of personnel so as to maintain objectivity and independence. It needs to be ensured that audit is carried out in an impartial and fair manner without favour or prejudice.

14. Parameters for distribution of work: Specific parameter for distribution of work amongst the members of audit parties in respect of different streams of audit like Civil, Commercial, Defence and Revenue etc. needs to be laid down, if not already prescribed and should be continuously reviewed so that each member of an audit has to do some original work irrespective of his position in the hierarchy.

15. Standards formats & checklists: Standard formats and checklists should be developed and used to ensure uniformity and focus in the audit approach. These could include (i) preliminary list of documents to be seen, (ii) suggested issues for examination, (iii) checks to be exercised at different levels and (vi) format for reporting results.

16. Provision for supervision and review of audit: Adequate levels of supervision, monitoring and review at different levels and as prescribed under different standards and guidelines of this department need to be provided in the audit plan so as to ensure that audit objectives are achieved. While supervision involves directing audit staff and monitoring their work during the audit to ensure that the audit objectives are met, review brings more than one more level of experience and judgement to the audit task and generally ensure involvement of higher levels of management with the audit process including providing an assurance that the work has been carried out as per the standards and guidelines.

The audit plan should be reviewed and approved by the competent authority with deviations from the approved plan during execution requiring written documentation and approvals. Before approving the audit plan, an exercise may also be conducted to ascertain the areas where inputs from other wings of audit would be required. Suitable mechanism may be evolved to obtain the requisite information from other wings on a timely and regular basis and reviewed on periodical basis. Existing departmental standards, manuals, guidelines, and instructions issued in respect of audit planning need to be kept in mind and complied with. While reviewing and approving the audit plan it should be seen whether the planning process was (b) Based on (i) sound judgement; (ii) Comprehensive; (iii) Provided for suitably experienced staff for audit and supervision; (iv) Timely and (v) Appropriately documented.

17. Audit Execution: The audit execution broadly includes the process as mentioned here: (i) Entry conference; (ii) Determination of the audit approach; (iii) Developing and executing audit tests through evidence gathering, evaluating evidence, developing

audit opinions; (iv) Developing findings and ensuring that replies/responses from the management are received; (v) Developing recommendation and (vi) Exit conference.

18. Clear understanding about entity and audit objectives: The audit process begins with a restatement of our understanding of the entity. This requires domain knowledge of the entity, the control framework within which the entity operates and the external environment. The focus of audit would be on the key risk areas and audit objectives already identified so as to be able to provide higher levels of audit assurance on the functioning of the entity. This may be explained to the head of the auditee unit at the time of entry conference and his/her input obtained. However, the audit team would continue to have the flexibility to examine other risk areas that emerge during the audit with proper documentation and approvals.

19. Audit test programmes: Testing of the audit objectives is the task of carrying out a series of procedures and activities with reference to the audit criteria already developed and obtaining relevant and reliable evidence in respect of these procedures/activities during the course of audit. The audit tests are the key link between the audit objectives and criteria and the conduct of audit lead to credible and objective findings. Instructions, detailed checklists and formats as contained in the Manuals/Guidelines etc. of the department or as prepared at the stage of audit planning are to be referred to while framing the audit test programme. Selection of the sample to be tested should be done in a transparent manner and where possible with the help of appropriate sampling techniques. The sample drawn should be commensurate with the assurance levels required in the audit. Adequate documentation is required for the method of selection of the sample (e.g. random, judgmental etc.), its size and the audit criteria/objective with which the sample is linked.

20. Developing audit findings: Audit findings/observations are based on the analysis of information or evidence drawn from the sample for audit with Computer Assisted Audit Techniques and Tools (CAATTS) applied wherever possible. Audit evidence should be valid, appropriate, reliable, sufficient, accurate and complete so as to be able to frame audit opinions and draw effective conclusions. The opinion and assessment of the auditor are to be based solely on the analysis of facts. Audit findings and conclusions should be an accurate reflection of actual conditions of the matter being examined.

21. Documentation and maintenance of working papers: Complete and detailed working papers must be maintained in respect of the audit, appropriately cross referenced and supported by evidence. The working papers should be accurate, clear and relevant and should bring out the inputs made by the different members of the audit team including supervision and review, as determined in the audit plan. The working papers should also include information relating to monitoring/review of the work of a consultant/expert, if any, as out lined in departmental orders or guidelines.

22. Supervision of audit: Supervision should involve assigning of responsibilities, providing guidance, reviewing the work, staying informed about, addressing significant problems and obtaining periodic feedback. There should be frequent communication

with staff so that they all understand their role and tasks within the overall aim and context of the task assigned. Critical points in the audit programme should be identified to ensure that audit aims are met.

23. Monitoring and review of audit operation: Regular monitoring of the work at suitably senior levels would enable anticipation of problems and early intervention with appropriate action and solutions. Improved electronic and online monitoring of the progress of audit and providing guidance and clarification to field parties would substantially improve the quality of audit product. A comprehensive and timely review would also ensure that all conclusions are based on and supported by reliable and sufficient evidence.

24. Exit conference: Before the audit is completed, management/auditee responses to the audit findings and observations should be obtained. All connected key documents may also be obtained, especially in respect of important observations which are likely to be featured in the audit report. The report should also be discussed in detail with the head of the auditee before concluding the audit programme.

25. Audit reporting and follow up: The audit product includes all reports/appraisals/ comments/opinions/findings that emerges from the audit process and its follow up. All findings should be evaluated in the context of the audit evidence seen and the response of the auditee. Observations and conclusions are expected to be logical and based on valid audit evidence. The audit report should comment specifically on the audit objectives, scope and methodology and the results of the audit include finding, conclusion and recommendations in accordance with the 'Reporting Standards' of the Department.

26. Reporting of financial and compliance audits: For attestation or certification audit, the auditor's opinion on a set of financial statements is generally given in a concise, standardized format in accordance with standards/orders/guidelines of the Department. Opinions should be appended to and published with the financial statements to which they relate. For compliance audits primarily concerned with compliance with laws, regulations and procedures and with probity and propriety of decisions, the reporting and communicating the audit results should be in accordance with the policies, guidelines and instructions of the department.

27. Reporting for performance audit: Performance audit is wide-ranging in nature and is more open to judgement and interpretation. For performance audits, the report should be on the economy and efficiency with which resources are used and the effectiveness with which objectives are achieved. The reporting structure will have to be in accordance with the Performance Auditing Guidelines of the Department.

28. Characteristics of a good audit report: The audit report should be complete, accurate, objective, convincing, clear and concise. It should contain the audit objectives, scope and methodology and the results of audit which include findings and conclusions and recommendations where applicable. Special attention is to be given while framing audit comments relating to fraud and corruption as laid out in departmental instructions.

29. Review of audit findings before finalization of reports: All audit findings should be reviewed at a suitably senior level before audit opinions or reports are finalized. The nature and extent of the review would depend on several factors such as the significance of the work, the risk perception of the auditee and experience levels of the audit personnel. Review can be done on a concurrent basis when the audit work is going on at the stage of preparation of audit observations, finalization of inspection reports, drafting of audit reports and applying quality checks prior to final approval of the audit report. Similarly a checklist may be prepared in the headquarters section of the field offices to review the Inspection Reports (IRs). The performance of the audit team may be reviewed at the time of finalization of the IR on the basis of predetermined parameters and placed before the senior management for appropriate action. The results of the review need to be documented in a transparent manner to be used as feedback into the audit cycle. Review would include check of the presentation and format and the technical quality and content of the product. It should ensure that all findings and conclusions are based on and supported by competent, relevant and reasonable evidence. All assertions of audit are to be fully supported by the data gathered during the audit. The documentation of key evidence and its interpretation in audit should clearly establish the manner in which audit conclusions were reached. The review checks whether the audit product is timely, comprehensive, and appropriately documented. Timeliness of the audit result may involve both the meeting of statutory deadlines and the delivering of the audit results when they were needed for a policy decision or to correct systemic weaknesses. The response of the auditee should also be adequately reflected and any divergence of opinion should be dealt with clearly. The review is expected to assess the level and quality of the prescribed supervision of the audit and provide an assurance that the work has been carried out according to standards and guidelines of the department.

30. Developing audit recommendations: All performance audits should conclude with well thought-out recommendations. For developing recommendations, audit should identify the underlying cause(s) of findings as this forms the basis of the recommendations. A quality recommendation is one that is (i) Action-oriented, properly directed, specific, convincing, significant, positive in tone and content; (ii) Dealing with underlying causes and should correct the basic cause of the deficiency; (iii) Feasible and workable; and (iv) Cost-effective or the benefit to be derived from implementation of the recommendation outweighs the cost for its implementation.

31. Inventory of recommendations: A database of audit recommendations should be maintained electronically with appropriate grading for effective monitoring and follow-up of audit recommendations. The database also needs to be updated periodically.

32. Follow up: Follow-up of the audit output improves the quality and effectiveness of audit by assessing the response of clients and stakeholders to the work performed by audit in terms of results and impact. There should be an assessment of action taken by the auditee in response to audit findings.

33. Liaison with clients and stakeholders: Follow-up includes interaction with the auditee units and in case of audit reports presented to the legislature with legislative

committees to ensure adequate attention and prioritization to important audit findings. This would also help in identifying areas of public significance for future audit. Other stakeholders such as government functionaries, NGOs and citizens groups should also be engaged in the audit process so as to increase the relevance and usefulness of the audit product. Public awareness of important audit output through the use of the media in accordance with the media policy of the department is also important.

34. Continuous improvement through Technical Inspection, Internal Audit, Peer Review and Lessons-learnt Process: Post audit technical inspections, internal audit and peer review are other mechanisms of self assessment to know the quality procedures functioning effectively and identification of steps needed to further improve the quality of audit.

35. Lessons-learnt Process: System of self evaluation by audit teams of audit practices through post audit discussions is an important quality assurance process. The purpose of establishing continuous lessons learnt process is to ensure consistent quality in audit and improve the department's process on a continuous basis. Regular internal discussions would help in taking stock of the audit on several parameters such as (i) Understanding what worked well (ii) Whether the resources assigned to the audit were reasonable (iii) Whether findings/ conclusions/ recommendations got an appropriate response (iv) Reasons for less successful audits (v) Scope for improvement and (vi) How these can be achieved.

36. Wide communication of lessons-learnt process: The key message arising from the lessons learnt should be communicated widely through training, seminars, workshops and guidance. The measures set out above are intended to improve the quality in audit process, however, these procedures should not curb the initiative and good judgement of the auditor for adapting of particular circumstances as required. The Judgement depends upon the audit task in hand, problems faced during audit and the auditor's competence, skill, expertise and professional qualification etc.

The framework described as above incorporates measures and practices which when followed would provide a reasonable assurance that audits are concluded in a manner as to ensure high quality and to meet stakeholders' expectation. The premises set out here are drawn from the ASOSAI guidelines on audit quality management system.

CHAPTER-X

AUDIT MATERIALITY

10.01 Audit Materiality

The concept of materiality underlines the whole process of financial audit. The users of financial statements do not need absolute accuracy to make informed decisions. A matter is, therefore, considered material if its omission or misstatement would reasonably influence the decision of an intended user of the audit report.

The concept of Materiality underlies the whole process of financial audit. Materiality should be considered by Audit when:

- (a) **D**etermining the nature, timing and extent of audit procedures; and
- (b) **E**valuating the effect of misstatements.

The concept of materiality is used both at the planning stage of the audit, when deciding what and how much work needs to be done, and in evaluating the results of the audit.

In assessing materiality, the prime consideration is the total value of the errors in the account. However, value is not the sole consideration. The nature of the error, or the context in which the transaction occurs, are sometimes more important and Audit must always consider these factors, as well as the value, when deciding whether an error is material-

Thus, materiality is of three types, viz,

- Materiality by Value;
- Materiality by Nature;
- Materiality by Context.

10.02 Materiality by Value

The point where the total value of errors in an account becomes unacceptable to Audit, so that Audit would have to qualify the audit opinion, is called the materiality level of that account. Audit has to judge the materiality level of a particular account through the eyes of the intended users of the account. In doing this, Audit will be judging the sensitivity of the account.

The materiality thresholds depend on the basis of accounts and their sensitivity. The norms generally followed are indicated below, as an example. The audit team members should make sure that they follow any guidelines laid down by the CAG of India in this regard.

Materiality is a relative term and requires the exercise of professional Judgement.

Materiality should be chosen to reflect the drivers behind the account, and could be expenditure, income, average surplus or asset values. The level of materiality by value is set at the outset of the audit, but should only be considered as a guide. It should not be considered a hard and fast figure. A range of values can be considered for materiality and the audit plan should contain a justification of the choice.

Audit materiality should be based on its individual circumstances. When deciding on a figure to use as materiality you should be guided by two questions:

- How great is Parliament's / Legislature's and other users' interest likely to be?
- What are they most likely to be concerned about?

The level of interest in the account dictates the sensitivity of the account, more interest in the account results in less error being tolerated before the financial statements are felt to no longer give a true and fair view of the state of affairs of the body. The process should be informed by the work done in understanding the business.

For Accounts prepared on Cash Basis (for example, Finance and Appropriation Accounts)

The materiality level is usually set at a percentage of gross expenditure, depending upon the sensitivity of the account, as indicated in the following table. It could be based on gross receipts if, in the circumstances of the particular account, receipts were regarded as more important than expenditure.

Classification Of Account	Materiality Base	Materiality As Percentage
Very Sensitive	Gross Receipts /Expenditure	½ %
Sensitive	Gross Receipts/Expenditure	½% to 2%
Not Sensitive	Gross Receipts/ Expenditure	2%

This is illustrated in the following example.

<i>Example</i>
The gross expenditure of a Government entity in a year is Rs 100 crore. The accounts are considered as sensitive in view of the interest expressed by Parliament and members of the general public. Considering the sensitivity, materiality threshold at 1%, i.e., Rs 1 crore was fixed for financial audit (as the overall threshold for errors).

For Accounts prepared on Accruals basis

The materiality level is usually set at a percentage of the materiality base, depending upon the sensitivity of the account. Different bases are available, as indicated in the following table.

Base Figure for Materiality	Sensitivity of Account		
	Very Sensitive	Sensitive	Not Sensitive
Normal net surplus	5%	5 – 10%	10%
Gross income / expenditure	½%	½ - 2%	2%
Turnover (Sales)	½%	½ - 2%	2%
Total assets	½%	½ - 1%	1%
Net assets	1%	1 – 2%	2%

Example

A public sector corporation engages mainly in trading activities. The turnover of the corporation in a year is Rs 500 crore. The accounts are not considered as there is no recent interest expressed by Parliament and members of the general public, there is no proposal for disinvestment of Government's shareholding and there are no shareholders

other than Government. Considering the accounts as non-sensitive, materiality threshold at 2%, i.e., Rs 10 crore was fixed for financial (attest) audit (as the overall threshold for errors).

It may not be necessary to set separate materiality levels for different financial statements like the Balance Sheet and Income and Expenditure Account. Each statement should be audited as part of an integrated set of financial statements recognizing that assurance from auditing one area of an account gives some assurance in others. For example, audit work in the income account area should normally provide assurance of the debtor balance.

10.03 Factors other than value in deciding materiality

While the use of a percentage as a numerical threshold, such as 1% of gross expenditure may provide the basis for a preliminary assessment of materiality, it cannot appropriately be used as a substitute for a full analysis of all relevant considerations. In the Government Perspective, materiality is also based on the “context and nature” of an item and includes, for example, sensitivity as well as value.

10.04 Materiality by nature

The question asked here is *"Does the error affect a figure in the accounts which users expect to be stated with a high degree of accuracy or which is likely to be of great interest to them?"* This recognises that in any set of accounts some are more material than others. These will include specific disclosure requirements of the auditee entity and matters which the auditors know Parliament/Legislature will be interested in to the extent that a higher degree of accuracy is required for those particular figures than there is for the account as a whole. Examples of items material by nature include the budgetary excesses, misclassification between voted and charged expenditure, chief executive's salary, the cash balance, Auditor's remuneration and details of special payments, write-offs and losses.

The following are some of the considerations that may render material a quantitatively small misstatement in a financial statement:

- **Whether** the misstatement arises from an item capable of precise measurement or where the users expect it to be precisely stated (for example, surpluses and balances to be surrendered in Appropriation Accounts);
- **Whether** the misstatement affects compliance with disclosure requirements of Accounting Standards or Rules (for example, items which need to be shown separately because of their exceptional nature).

Cases involving possible fraud and corruption may be considered material by nature, requiring making of qualification in the audit opinion on financial statements, unless the amount involved is trivial or inconsequential. It must, however, be clear that the fact of fraud or corruption observed in an entity has been established beyond doubt through, at least, an internal or external investigation. The cases of fraud and corruption that have an evident impact on the true and fair view of an account or its sub-set or on the overall reliability of internal controls in an entity should be reckoned in this context. As it is not

possible to lay down any monetary threshold for such cases, the auditors need to exercise professional Judgement in such cases considering inter alia the amount involved and surrounding circumstances. For this purpose, the entries made in the Objection Books and Adjustment Registers maintained in accordance with Chapter 2 of Section VII of the Manual of Standing Orders (Audit) may constitute one source of relevant information. The provisions of the Standing Order on role of Audit in relation to cases of Fraud and Corruption (2006) may be consulted in this regard.

(CAG's Letter No. Audit (AP)/24-2008 dated 29.14.2009)

10.05 Materiality by context

The question being addressed here is "Is the error material because of its implication for other aspects of the accounts?" For example, if, due to a misstatement, the financial statements indicate that a department has savings when it has, in fact, exceeded its budget, it will become material by context.

If a misstatement or the aggregate of such misstatements has the following impact, the same may be considered as material by context:

- (a) It converts surplus /savings / profit into deficit /excess expenditure / loss or vice versa in a financial statement.
- (b) It reverses a trend in the accounts generally or in a particular figure;
- (c) It increases expenditure or losses above the limits for non-disclosure;
- (d) It increases the amount in an account head above the threshold that requires an explanation in the account;
- (e) It creates or eliminates the margin of solvency in the financial statements (events occurring subsequent to the date of financial statements should also be considered);
and
- (f) It results in misreporting of performance (like target for fiscal/revenue deficit) under the relevant FRBM Act and FRBM Rules or some other legislation.

Criteria for determining when material misstatements can also be deemed as having pervasive effect

As already mentioned above, at the stage of reporting of audit results and finalizing audit certificate, if the level of error or uncertainty (due to scope limitation due to non-production of records, etc.) in the accounts is material, it will call for issuing a qualified audit certificate. If the level of error or uncertainty is not only material, but fundamental or pervasive, it calls for issuing an adverse audit certificate of a disclaimer of audit opinion. This calls for professional judgement on whether the matter is fundamental to an understanding of the financial statements, so that in the Audit's opinion, a person reading the financial statement would be totally misled as a result of the error in them? If the matter is not fundamental, a qualified opinion would be issued. On the other hand, if the matter is not fundamental or pervasive, it calls for an adverse opinion or disclaimer of opinion.

For deciding on when some misstatements can be deemed to have a pervasive effect, the guidance given in the International Statement on Auditing (ISA 705) issued by

International Federation of Accountants (IFAC) may be considered. The ISA 705 states that pervasive effects on the financial statements are those that, in the auditor's Judgement:

- (i) Are not confined to specific elements, accounts or items of the financial statements;
- (ii) If so confined, represent or could represent a substantial proportion of the financial statements; or
- (iii) In relation to disclosures, are fundamental to users' understanding of the financial statements.

Others

An example about the application of the Materiality Guidelines is placed in the *Annexure-I* in last of chapter.

It should be carefully noted that materiality is a relative term and requires the exercise of professional judgement. Before issuing a modified opinion or a disclaimer of opinion, the matter should be discussed with the management of the auditee entity in full regarding the circumstances giving rise to the modification and the auditee management should be given the opportunity to make corrections to the financial statements or provide further information in support of the figures contained in them.

As a matter of abundant caution, normally planning materiality may be taken at a lower figure than reporting materiality, as this will facilitate adequate cushion for detection of material errors.

(CAG's Letter No. Audit (AP)/24-2008 dated 29.14.2009)

10.06 Materiality with regard to planning

"Planning materiality" is primarily concerned with materiality by value. Audit calculates the highest level of "tolerable error" for the estimated accounts as a whole, that is the highest amount which would not distort the overall view of the accounts given to the addressee of the audit report. Since Audit can rarely examine all transactions or balances, allowance is made within this "tolerable error" leaving only a fraction for the incidence of errors identified during the audit. Then Audit assesses the risk of this level of error in the balances and transactions and focuses the audit work accordingly.

The materiality of errors by nature and by context is a matter to be considered specifically at the end of the audit. At the planning stage, the possibility of such errors occurring should be recognised by ensuring that audit programmes include year-end procedures to detect them.

10.07 Reporting materiality

Reporting materiality applies at the end of the audit when all errors are evaluated and viewed in relation to their known effects on the financial statements. At this stage, the Auditor has to consider the audit findings by value, by nature and by context, and errors or omissions may be considered material which otherwise by value would not.

As a matter of abundant caution, planning materiality may be taken at a lower figure than reporting materiality.

10.08 Types of error

The types of error, which might be present in accounts, are those which the general audit objectives seek to identify.

Example:

Items omitted from the accounts would be revealed by tests designed to meet the completeness objective. Included items not relevant to the period of the account would be identified against the occurrence objective. The measurement objective seeks out any misstated figures. The regularity objective would seek out if expenditure was not in accordance with the intention of governing legislation. Tests against the disclosure objective would be aimed at showing up items which had not been properly disclosed.

Most Likely Error and Precision

Most Likely Error (MLE)

Most likely error is a term used in planning and evaluating the results of audit. In planning it is more properly known as anticipated most likely error (AMLE) and is the error the auditors predict they will find as a result of audit testing based on the errors found in the previous year's audit. The level of AMLE set is a matter of judgement; if it is felt that the level of error found in the previous year was not typical for the account it may be adjusted to produce the AMLE. At evaluation stage MLE represents the level of error found and extrapolated.

Precision

'Precision' represents the degree of uncertainty in the auditor's estimate of error (the MLE). It is a range of error that auditors could accept in the account between MLE and materiality, it helps to ensure that if there is more error than anticipated it either remains below materiality or will be found through audit testing. As auditors cannot be sure that the errors predicted and found in testing are the only errors in the account, the sample chosen should ensure that the auditors can be 95% sure that they have found any error.

Precision forms the basis of the calculation used to determine the sample size which should be tested by auditors to gain audit assurance. If auditors base their sample sizes on materiality and AMLE alone, this would allow no room for the unexpected errors the auditors could find. Auditors, therefore, set a level for precision between 80% and 90% of the possible range between AMLE and materiality.

The auditors should ensure that the level of error predicted in the account is a genuine estimate. If there is an over-estimation of the level of error anticipated in the account, a smaller precision increases sample sizes and this usually leads to too much work being done. If the auditors anticipate very low levels of error and find more errors than planned for, this may cause problems in extrapolation.

Calculating Precision

Precision is calculated by the following formula:

(Materiality – Anticipated Most Likely Error) x Range of error possible but with no room for unexpected error

The range is normally taken as 80 to 90%. The percentage to be chosen depends upon the nature of population and the expected chance of unexpected error. If the chance is more, a lower percentage (say 80%) can be chosen which will give more margins for error.

<i>Example</i>	
Population value	₹8,00,00,000
Materiality	₹8,00,000
Anticipated error	₹3,00,000
Percentage (from range of error) taken for calculating precision	80%
Planning Precision	$\text{₹}(8,00,000 - 3,00,000) * 80\% = \text{₹}4,00,000$

Precision is used in the calculation of the size of statistical sample drawn and the evaluation of the results of testing the sample. For any account the reasons for the level of planning precision and AMLE should be explained and recorded.

(Authority: Para 2.31 to 2.59 of CAG's Financial Attest Audit Manual)

Annexure-I
(Referred in to Paragraph 10.05)

Illustration on Modified opinion to Aggregate Error
Crossing the Materiality Threshold

The following errors were found during the financial audit of a State Government,

Details of Errors

1. Misclassification of revenue expenditure as capital expenditure: ₹100 crore
2. Funds transferred to PLA Deposits, without actual expenditure; noticed from 100% check of nil payment vouchers ₹125 crore

The gross disbursements as per Statement No.1 of Finance Accounts were ₹15,000 Crore and materiality is to be taken at 1%.

(2) Audit Opinion

Materiality Threshold	₹150 crore
Likely Aggregate Error	₹225 crore (100+125)

As the Aggregate Error exceeds the Materiality Threshold, clean audit certificate cannot be given. The audit opinion should be modified suitably with qualifications.

(3) To continue the above example, if the same errors are noticed during the audit of accounts of a small State Government with gross disbursements of only ₹1,000 crore and materiality at ₹10 crore (i.e., 1%), the aggregate error of ₹225 crore may even be considered as pervasive in nature.

CHAPTER-XI

FINANCIAL ATTEST AUDIT OF AUTONOMOUS BODIES

11.01. Introduction

1. The audit of Autonomous Bodies entrusted to the Comptroller and Auditor General of India is regulated by sections 14, 15, 19 and 20 of the CAG's (Duties, Powers and Conditions of service) Act 1971 as amended from time to time. The audits taken up under Sections 19 and 20 involve certification of accounts of the Autonomous Bodies and preparation of Separate Audit Reports. The CAG's Auditing Standards, 2017 envisage the auditing principles and set out the norms/benchmarks in the form of general standards and specific standards applicable for financial audits. The Manual for Standing Orders (Audit) and Manual of Instructions for audit of Autonomous Bodies prescribe, among others, the process and provide a check list for conducting financial audits of Autonomous Bodies.

2. This guidance is in furtherance of the Manual of Instructions for audit of Autonomous Bodies and the objective is to provide application guidance with an operational focus so as to serve as a ready reckoned for financial audit of Autonomous Bodies.

11.02 Format of Accounts

1. The Central Autonomous Bodies are required to compile their accounts in a Uniform Format of Accounts and Format of Accounts and Format of Accounts for Major Port Trusts, prescribed by Government of India, Ministry of Finance, which has been effective from the accounting year 2001-02 and Separate Format of Accounts for Central Autonomous Bodies prescribed by Ministry of HRD under its administrative control from the financial year 2015-16. The Uniform Format of Accounts is given in Volume 11 of the Manual of Instructions for audit of Autonomous Bodies. The standard norms of accounting for the Major Port Trusts, prescribed in consultation with the CAG has been made applicable from the accounting year 2003-04, which are also available in Volume II of the Manual of Instructions for audit of Autonomous Bodies. The State Autonomous Bodies may or may not adopt the Uniform Format of Accounts.

2. The Annual Financial Statements of Central Autonomous Bodies comprise the following statements, prepared and presented in the formats and in the manner as provided in the Uniform Format of Accounts:

- Balance Sheet;
- Income and Expenditure Statement;
- Statement of Receipts and Payments;
- Schedules to Financial Statements;
- Instructions and Accounting Principles;
- Notes and Instructions for the Schedules; and
- "Statement of GPF and NPS Accounts" prescribed in the format of accounts prescribed by MHRD

11.03 Objectives of financial audit

1. The purpose of an audit of financial statements is to enhance the degree of confidence of the intended users in the financial statements. The primary objective of

financial audit of an Autonomous Body is to express an opinion on the financial statements. In order to express an opinion, auditors seek to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. However, audit mandate arising from legislations, regulations and government policy requirements may result in additional objectives.

2. It needs to be recognized that a financial audit is conducted with reference to the assertions of the management that underlie the preparation and presentation of financial statements, which constitute enabling audit objectives. The assertions relating to Income and Expenditure statement and those relating to Balance Sheet items are as under:

Assertions for receipts and payments or income and expenditure account items

Assertion	Explanation
Completeness	All transactions relevant to the year of account have been recorded.
Occurrence	All recorded transactions pertain to the entity and properly occurred (i.e. the underlying event took place) and were relevant to the year of account.
Measurement	The recorded transactions have been correctly valued, properly allocated to the period and measured with reliability in accordance with established accounting policies, on acceptable and consistent basis.
Regularity	The recorded transactions are in accordance with primary and secondary legislation and other specific authorities required by them.
Disclosure	The recorded transactions have been properly classified, accounted for/disclosed where appropriate.

Assertions for Balance Sheet items

Assertion	Explanation
Completeness	All assets and liabilities have been recorded.
Existence	All recorded assets and liabilities exist on the given date.
Valuation	The values ascribed to the assets and liabilities are accurate and have been arrived at in accordance with established accounting “policies on an acceptable and consistent basis”.
Ownership	The entity owns the assets and the liabilities on the given date and both arise from regular activities.
Disclosure	The assets, liabilities, capital and reserves have been properly disclosed.

11.04 Phases of the audit process

The phases of the audit process in a financial audit and the main activities against each of the phases are as under.

Sr. No.	Phases of the audit process	Main activities
1	Planning	<ul style="list-style-type: none"> • Understanding the entity • Risk Analysis • Deterring Materiality • Developing Audit Plan

2	Execution	<ul style="list-style-type: none"> • Gathering evidence • Evaluating evidence • Documentation
3	Reporting	<ul style="list-style-type: none"> • Consolidating audit findings • Evaluating impact of material Misstatements • Deciding on Audit Opinion

1. **Planning:** The primary objective of the planning process is to ensure that audit is carried out in an effective, efficient and timely manner and to reduce the audit risk to an acceptably low level. The audit procedures that are required to be carried out against each of the main planning activities comprise the following:

a. Understanding the entity: This includes understanding the relevant objectives, operations, regulatory environment, internal controls, finance and other systems and researching on potential sources of audit evidence. This would involve obtaining an understanding of:

- **Nature** and objectives of activities of the entity: This comprises understanding its operations, its ownership and governance structures, the way the entity is structured and financed;
- **Legal and regulatory framework** governing the entity and how the entity is complying with them;
- **Financial reporting framework:** *This includes review of accounting manuals, review of accounting principles and conventions adopted to understand their consistency with the reporting framework and the extent to which the Accounting Standards issued by the Institute of Chartered Accountants of India are applicable to the entity;*
- Internal control mechanism relevant to audit: This includes understanding the internal control culture set by the governing body, controls surrounding preparation and presentation of financial statements including those relating to journal entries and accounting estimates;
- Extent to which Information Technology systems have been used to initiate, process, record and report financial information and how they integrate with manual processes; and

Extent to which financial information processing has been outsourced

b. Risk assessment: *From the understanding gained of the entity, this activity involves assessment of the risk of material misstatement at the financial statement level and at the assertion level for classes of transactions, account balances and disclosures so as to provide a basis of designing and performing further audit procedures. This would include assessment of:*

- Compliance with laws and regulations: Not all laws and regulations applicable to the entity would impact the financial statements. Some laws may have a direct effect on the financial statements as they determine the nature and extent of reported amounts, while some laws may have an indirect effect and non-compliance could have financial

implications such as fines, penalties etc, which have to be recognized in the financial statements;

- Changes in legal or regulatory requirements, policies of government and accounting policies adopted by the entity;
- Review of Minutes of the Governing Body and correspondence with the Ministry/Department would help identify risk exposures;
- **The complexity and subjectivity in measurement of financial information or accounting estimates:** This is a potentially red flag. Cases that involve a substantial degree of complexity, subjectivity or use of judgment are intrinsically exposed to the risk of misstatement;
- **Risk of fraud:** Some of the areas prone to risk of fraud are procurements, grants, misrepresentation of financial information, inventory valuation and misappropriation of assets;
- **Management override of financial reporting controls:** Cases of rectification journal vouchers, journal vouchers being periodically initiated by other than the authorized personnel could potentially involve financial misstatements; and
- **Events occurring after the date of financial statements:** Financial statements may be affected by certain events occurring after the date of financial statements that impact the presentation of financial statements

Internal audit function

Issues and irregularities that featured in the previous year's Audit Report

c. Materiality: Materiality is judged from the users' perspective. Based on the risk assessment a materiality threshold would have to be determined for the financial statements as a whole. CAG's Auditing Standards envisage that where one or more classes of transactions, account balances or disclosures could reasonably be expected to influence the decisions of users on the basis of the financial statements, the auditor shall also determine materiality level or levels for the classes of transactions, account balances or disclosures concerned. The materiality level denotes the upper limit up to which a misstatement, individually or when aggregated with other misstatements could be tolerated and misstatements beyond this threshold(s) would be considered material.

d. Developing an audit plan: Based on risk assessment and materiality, the audit plan should be developed. The audit plan should determine the audit approach, sampling methods and a detailed audit program describing the audit procedures required to be carried out as a response to the assessed risks and the roles and responsibilities of team members so as to ensure that resources are deployed efficiently and effectively.

2. Execution: The primary objective of the execution process is to apply the planned audit procedures to gather sufficient and appropriate evidence and evaluate evidences as to form appropriate conclusions and determine the audit opinion on financial statements.

During the entire execution phase, auditors need to be alert to the risk of material misstatements. Therefore, when the audit procedures carried out on a selected sample of accounts or transactions indicate any potential deviation, abnormality or doubt,

conducting further audit procedures should be considered either to confirm or dispel the doubt, deviation or abnormality. The audit procedures include test of controls and substantive procedures test of details and substantive analysis of classes of transactions, account balances and disclosures. While the techniques for evidence gathering in financial audit are essentially record based analysis/review, they would *also include* Computer Assisted Audit Techniques where the financial systems are maintained in IT platforms.

The Manual of Instructions for audit of Autonomous Bodies enumerates the audit procedures (check list) - primarily substantive procedures that are to be exercised for each of the items appearing in the Receipts and Payments Account, Income and Expenditure Account and the Balance Sheet. Prior to conducting substantive procedures, however, the controls regulating the respective areas/items have to be tested to assess the nature and extent of substantive procedures that are warranted.

3. Reporting: The objective of financial audit is to express an opinion on the financial statements. The CAG's Auditing standards, 2017 envisage (para 5.2.11) that in order to form an opinion, the auditor must first conclude whether reasonable assurance has been obtained as to whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. Therefore, the auditor needs to determine whether the uncorrected misstatements are material, individually or in aggregate as envisaged (para 3.2.10 of the CAG's Auditing Standards,2017).

The uncorrected misstatements should therefore be judged for their reporting materiality and may be related/mapped against the assertions of the management (as listed at para 3.2 above) to determine whether the material misstatements are applicable to a particular assertion or are pervasive across various assertions. This *forms* the basis for expression of the audit opinion. Audit opinion can be of the following types (refer paras 2.5.2.3 and 3.2.10 of the CAG's Auditing Standards,2017):

- **Unqualified:** Where the Auditor has obtained reasonable assurance on the financial statements;
- **Qualified:** Where the Auditor disagrees with, or is unable to obtain sufficient and appropriate audit evidence about certain items in the subject matter which are, or could be material but not pervasive;
- **Adverse:** Where the Auditor, having obtained sufficient and appropriate audit evidence, concludes that deviations or misstatements, whether individually or in aggregate, are both material and pervasive: and
- **Disclaimed:** Where the Auditor is unable to obtain sufficient and appropriate and audit evidence due to an uncertainty or scope limitation, which is both material and pervasive.

(CAG's Professional Practice group's letter number 310 16/PPG – II/2017 of 25th October 2017)

CHAPTER-XII

COMPLIANCE AUDIT

12.01 Introduction: -

The chapter inter alia discusses applicability –

- a) To suit the needs of the IA&AD department, the specific adjustments for individual initiative and professional judgement for the PAG/AG;
- b) The audit mandate derived from the DPC Act;
- c) Definition of compliance audit as a regulatory system to correct the deviations from the determined criteria and rules and regulations with special reference to ISSAI 4100 and CAG's regulations on audit and accounts 2007.
- d) It is basically concerned with regularity and proprietary audit.
- e) Next is about the three parties involved in compliance audit viz the auditor, Auditee unit and the intended users.

12.02 General Principles of Compliance Audit

The chapter inter alia lays down that –

- a. The Auditors shall plan and conduct audit with professional scepticism (questioning mind) and exercise professional judgement (application of knowledge, skills and experience) and is expected to observe the prescribed code of ethics, take responsibility for overall audit and consider audit risk throughout the process and also the materiality of audit objections.
- b. Auditor should also prepare sufficient audit documentation.
- c. Should maintain effective communication and determine the audit scope.
- d. To understand the audited entity and control environment while all the time considering the audit risk especially in regard to fraud.

12.03 Compliance Audit Plan

It is inter alia stated that –

- a. The entire audit universe (i.e auditee units established for a purpose of formulation and implementation of Government policy) by a combined effort implements the Government policy as well as collects revenue and incurs expenditure till the last mile of implementation and this universe is broken down into units for planning and scheduling audits.
- b. An Audit Unit is defined as a unit, which has one or more of the following attributes:
 - Substantial devolution of administrative and financial powers;
 - Functional autonomy; and
 - Operational significance with reference to achievement of objectives of the apex auditable entity.
- c. Further, that this requires top down, risk based, department centric mechanism for macro level planning and conducting compliance audits and preparation of annual compliance audit plans.

- d. Also a top down and risk based approach to identification of audit units intends to place the Department/Sector as the centre piece of the audit focus and provide a scientific mechanism of defining audit units.

12.04 Planning Compliance Audit

It inter alia includes planning for individual compliance audit i.e –

- a. Understanding the auditable entity;
- b. Understanding the relevant principles of sound public sector financial management;
- c. Identification of intended users;
- d. Consideration of materiality and risk assessment;
- e. Determining the scope of audit;
- f. Development of audit objectives;
- g. Sampling considerations and
- h. Considerations related to direction, supervision and review of the audit teams.
- i. An audit plan should be prepared especially with reference to the apex auditable entity.

In it the scope of audit should be defined with reference to what to audit, who to audit, where to audit and which period to audit and prepare the compliance audit design matrix with the audit objectives and the relevant criteria.

In addition to it, relevant Sustainable Development Goals should be adopted in the audit criteria and audit design matrix so far, they relate to the respective topic of the PAs/TAs/FCAs consistent with audit objectives.

(APM section's Circular No. 02 Dated: 28-05-2019)

Then the compliance audit in digital environment, the team composition and intimation to the auditable entity is discussed.

12.05 Conducting Compliance Audit

The Compliance Audit inter alia includes

- a. Gathering of evidence, evaluating evidence, forming conclusions, documenting the audit process and communicating with the auditable entities.
- b. Audit evidence is the information collected by the auditor for arriving at the audit conclusions.
- c. In the planning phase, the auditors shall review the internal controls and institutional arrangements established by the auditable entity to prevent, detect, and rectify instances of noncompliance.
- d. Also, the audit has to combine and compare the evidence from different sources in order to meet the requirements for sufficiency and appropriateness of audit evidence.
- e. Sufficiency is the measure of the quantity of evidence.
- f. The quantity of evidence needed is affected by the risks of the subject matter information being non-compliant or prone to compliance deviation (i.e. the higher the risks, the more evidence is likely to be required) and also by the quality of such evidence (i.e. the higher the quality, the less may be required).

- g. Appropriateness is the measure of the quality of evidence; i.e its relevance, its validity and its reliability in providing support for the auditor’s conclusion.
- h. The sufficiency and appropriateness of evidence is dependent on the professional Judgement of the auditor and is also influenced by several factors.
- i. The evidence gathering and evaluation is a simultaneous, systematic and an iterative process and involves audit procedures such as document scrutiny, physical inspection etc, evaluating for sufficiency and appropriateness and reassessing risk for further evidence.
- j. Next is the drawing up the audit findings matrix, documentation of audit evidence supporting the audit conclusions and confirming that the audit was carried out in accordance with relevant standards and comprises of audit file with working papers and
- k. Lastly, about the good communication with the auditable units through entry meetings.

12.06 Reporting Compliance Audit

- a. Auditors should consider materiality for reporting purposes and adhere to the principles of completeness, objectivity, timeliness and contradictory process while reporting.
- b. The top down, risk based approach to conducting compliance audit, as described in earlier chapters, is envisaged to provide a department centric view of the extent of compliance. Present the results to the end users in a prescribed form.
- c. A Departmental Appreciation Note may be issued to the Apex Auditable Entity (Department/ Sector) where a specific subject matter has been selected to assess the extent of compliance from a departmental perspective or the PAG/AG intends to draw attention of the executive towards system weaknesses etc. It includes overview of the department, objectives and scope, audit findings, conclusion and acknowledgement.
- d. A follow up process facilitates the effective implementation of corrective actions and provides useful feedback to the Apex Auditable Entity/ audit units and at the same time facilitates the auditors to plan future audits.

12.07 Improving the quality of Inspection Reports

1. Introduction

The **broad** objective of compliance auditing is to enable assessment of whether the activities of auditable entities are in accordance with the authorities¹ governing those entities towards expressing a conclusion designed to enhance the degree of confidence of the intended users.

The Compliance Auditing Guidelines adopted by the Department institutionalises the processes for planning, conducting, reporting and follow up

¹ Authorities include the Constitution, Acts, Laws, rules and regulations, budgetary resolutions, policy, contracts, agreements, PPP contracts, established codes, sanctions, supply orders, agreed terms or the general principles governing sound public sector financial management and the conduct of public officials.

of compliance audits. The guidelines envisages a top down, risk based and department centric approach and aims to instil the process rigour in audit implementation towards achieving the objectives of compliance auditing. The process rigour needs to ultimately enhance the quality of Inspection Reports. This guidance note, therefore, is in furtherance of the Compliance Auditing Guidelines and is intended towards establishing the specific procedures that should be followed while planning, conducting and reporting the results of compliance auditing through Inspection Reports.

The guidance notes emphasises the need for effective planning, including use of data analytics, prior to commencement of audit. Further, this guidance prescribes a process based Title Sheet to accompany all Draft Inspection Reports at the time of submission to field Headquarters, which includes certification of the audit process. The guidance note also envisages benchmarking and grading the Inspection Reports to evaluate their quality. The parameters and the scoring methodology address the existing and contemporary risks across the compliance auditing process.

Sustained implementation would result in achieving better audit process outcomes as well as contribute to enhancing the quality of assurance.

The procedures envisaged in this guidance note are generally applicable to all streams of audit. However, in order to address specific circumstances that may exist in some field offices/ audit streams, the functional wings may, if necessary, suitably modify the application of these procedures, the grading matrix or the Title Sheet.

Since this is an evolving process, the mechanism envisaged in this guidance note would be reviewed suitably in future after obtaining feedback from all stakeholders - field offices, functional wings, peer review and Inspection wing.

2. Essential procedures

The specific procedures that determine the efficiency and effectiveness of compliance audits, which should be followed in all compliance audit assignments are described in the following four sections:

- A) Planning compliance audits
- B) Conducting audits
- C) Reporting results
- D) Grading of Inspection Reports

A) Planning compliance audits

Evidence based **approach** and the opportunities presented by data analytics need to be harnessed to integrate data from various sources and formats to gain deeper insights, identify and analyse risk exposures of entities as envisaged in the Compliance Auditing Guidelines. Use of IT resources for data analytics is encouraged since this could obviate the need to visit auditable entities. The

macro and micro level risk assessments would lead to a better prioritization of the Auditable Entities and quality Annual Audit Plans and enable identification of focus audit efforts on the perceived high risk areas/ activities. The procedures that should be followed while planning compliance audits are:

1. Data Analytics: Data Analytics should be carried out by the Data Analytics Group or Reports section, which involve the following steps:

- Map (Identify) the relevant audited entity databases and third party databases (Refer the Big Data Management Policy)
- Collect the databases.
- Analyze it as per data analytic guidelines
- The analytic results will be used as inputs for audit plan.

Activities at serial no (i) and (ii) are primarily one-time exercises which will require periodic updating.

2. Maintenance of Guard file: A guard file should be maintained for each auditable entity containing the legislations/ rules/policies / orders that apply to the entity, Financial and Outcome budgets, important long term contracts/ MoUs and internal control processes/ procedures instituted by the entity (internal documents). It should also contain relevant sections of external overarching documents such as the Economic Survey, Finance Commission Reports, Indian Public Finance Statistics published by Government of India etc that define the external environment and policy thrust in the relevant sector. This guard file should be updated in every audit.

3. Desk review: The audit party (or alternatively the SAO in charge of the audit party) identified for audit of an individual entity (or a lead audit party identified for coordinating the audit of a group of entities) should carry out a desk review at Headquarters before embarking on an audit. The review should comprise a study of the guard file, data analysis to determine the direction/ focus of audit and to identify records /transactions that are potentially error prone for verification in the field. Ideally this can be **synchronized** with the quarterly scheduling of audits, when audit of similarly placed entities could be grouped/ scheduled simultaneously (e.g. billing units/ schools / PWD units etc.), so that focus areas/ common focus areas could be defined and pursued in audit. Use of data analytics at this stage is recommended. While ordinarily a desk review needs to be carried out for gaining an understanding of the entity to be audited and its focus areas, in certain cases, based on the context - size, complexity, scale of audit, desk review as a distinct procedure may not be warranted. In such cases, specific relaxation should be obtained from the concerned Group Officer, duly explaining the circumstances and recording/ documenting the reasons for the relaxation, before commencing the audit.

4. Planning audit procedures: Based on an understanding of the individual entity (after the desk review), the SAO in charge of the audit party should

prepare a plan of audit procedures for the specific entity detailing the audit objectives, scope of audit, main focus areas for audit and assignment plan for the team members, which should be approved by the respective Group Officer before the audit is undertaken. A recommended format for planning audit procedures is provided as *Annexure-I*. Where a specific subject matter has been selected, an audit design matrix as envisaged in the Compliance Auditing Guidelines should also be prepared.

Man days required for the purpose of carrying out desk review and planning audit procedures may be appropriately factored into the annual audit plan to the extent required. It is expected, however, that this would not adversely impact the overall audit coverage.

B) Conducting audits

During this process, monitoring the field audit parties and supervising the quality of audit and documentation of the field audit work are the most critical processes. The audit procedures that should be followed to achieve better process outcomes are:

5. Interface with Headquarters: An effective two-way interface between field audit parties and Headquarters needs to be established during the field audit process whereby Headquarters can effectively monitor the field audit process and the audit parties can report on audit challenges being encountered and also follow up on Headquarters directions. This would involve the following:

(i) Technological solution such as the OPTIMA being implemented in State AG (Audit) offices need to be leveraged to enhance the quality and effectiveness of monitoring.

(ii) Issues emerging from Group Officer supervision should be effectively followed up and reported. A format has been devised to be provided by the field audit party as part of the Title Sheet to the Draft Inspection Report.

(iii) Any systemic issue observed during audit should be communicated to other parties carrying out similar audits to enable a holistic assessment across all audited entities.

6. Certification of field audit process: The SAO of the field audit party should certify that the audit process was conducted as planned in accordance with the Auditing standards and Code of Ethics and that documentation requirement have been adhered to. The certification may be part of the Title Sheet that the field audit party submits along with the Draft Inspection Report. The revised format of the Title Sheet is provided as *Annexure-II*.

C) Reporting results

Preparation of Draft Inspection Report and vetting of Inspection Reports are very crucial processes. As envisaged in the Compliance Auditing Guidelines, the findings in the Inspection Report should be presented in two parts - Part IIA

comprising significant audit findings and Part IIB comprising other incidental findings with best practices being separately highlighted. The vetting process should have the same rigour as that adopted for Draft Paras. The following procedures should be adopted in this regard:

7. Presentation of Draft Inspection Report:

- (i) Each para should clearly bring out whether the deficiency/ best practice is an isolated case or it has a systemic connotation.
- (ii) The para should be drafted in an orderly manner by identifying the **criteria** (both for regularity and propriety subject matters) against which the subject matter is being evaluated, describing the **condition** (deviation from criteria as observed in audit), correlating the **cause** of deviation and determines the effect of deviation. The reply of the audited entity should be incorporated and audit rebuttal/ contention thereon should be clearly presented.
- (iii) While reviewing paras outstanding from previous Inspection Reports, in case of a continuing deficiency or a persistent irregularity the audit team should identify systemic issues/ control deficiencies rather than routinely updating the para with latest information/ revised monetary value.

8. Vetting of Inspection Reports:

- (i) The vetting process should ensure that every finding is supported by sufficient and appropriate evidence (Key Documents) and conclusions reached should be appropriate in the circumstances.
- (ii) It has to be ensured whether the IR paras have been **categorized** appropriately as Part IIA and Part IIB paras respectively. As illustrative list of paras that should be **categorized** in Part IIA and Part IIB are provided as ***Annexure-III***.
- (iii) While seeking approval of the Group Officer for issuing the Inspection Report, a Judgement of the persistent irregularities that need to be brought to the notice of the Executive through a 'Department Appreciation Note' needs to be taken. Accordingly, a 'Department Appreciation Note' may be issued to the respective Principal Secretary by the PAG/ DG/ AG/ PD as envisaged in the Compliance Auditing Guidelines.
- (iv) **Nil IRs:** In order to maintain the deterrent value of audit, some low risk entities may have to be audited and in such cases 'nil' reports may have to be issued. However, it has to be ensured that the requisite process rigour has been adhered to. All cases of 'nil' reports should be well documented, logically borne out and should be issued only after prior approval of the PAG/ DG/ AG/ PD of the field office.

D) Grading of Inspection Reports

The Inspection Reports should be graded so that their quality can be benchmarked. A scoring methodology has been defined to measure the efficiency and effectiveness of critical audit processes against a maximum score of 100, which would consequently be

translated into a grade to evaluate the quality of Inspection Report on a scale of 10. The process scoring methodology and grading matrix of Inspection Reports is provided as *Annexure-IV*.

The Vetting section in state AG Audit Offices and Reports/ Headquarters sections (as appropriate) in other Field Audit Offices should be vested with the responsibility of scoring and grading each Inspection Report, which should be approved by the Group Officer after the despatch of each Inspection Report. Extant instructions require that Inspection Reports should be issued with the approval of the Group Officer, which has to be diligently observed in all cases.

At the Group officer level, the mechanism of grading of Inspection Reports would represent a self-certification process. It provides a framework for objective evaluation, as process parameters and their scoring methodology have been prescribed. As a control measure, the procedure of scoring and grading Inspection Reports should be periodically reviewed by the PAG / DG/ AG / PD of the respective field office by a random selection of Inspection Reports, which should include Inspection Reports of Audited entities that were considered high risk.

The grading of Inspection Reports should not remain restricted as an isolated exercise and should distinctly reflect in the overall performance assessment of the field office. The peer review and inspection teams from Headquarters need to include this as an item in their respective check list to assess the scoring and grading procedure for their compliance and efficacy.

(CAG's Guidance Note number 226 – 09/PPG/2017 dated: 23rd August 2017)

Annexure-I
Format for planning audit Procedures

SI No	Description	Details
1	Name of the Entity	
2	Period of audit	
3	Duration of audit	
4	Have the documents of the Entity (such as the Financial budgets/Outcome budgets/Result Framework Documents/Annual Report/ New Policies and changes in policy, previous Inspection Reports/Performance Audits Reports conducted earlier etc) been desk reviewed	
5	Have documents and data from secondary sources (such as Reports of the State and Union Governments and of various Commissions/ Census data/ Statistics put out by Government/NSSO data/digitized data available in data.gov.in, VLC data, Beneficiary data (if applicable) etc, and other sources like media reports, research reports, academic reports etc) been desk reviewed	
6	Potential risk/focus areas that emerge of the review conducted as at (4) and (5) above.	
7	List the Audit Objectives that are intended to be pursued both on regularity and propriety aspects	
8	Summarise the planned scope of audit	
9	Audit procedures that are intended to be applied (review of records, physical verification, joint inspections, external evidence collection etc)	
10	Broad Assignment Plan for each party member	
11	Other remarks	

Senior Audit Officer

Group Officer

Annexure-II

TITLE SHEET		
(TO BE SUBMITTED ALONG WITH DRAFT INSPECTION REPORT)		
	PART A	
	Summary of audit results	
1	Name of the organization audited	
2	Name of party personnel	
	(i) Sr. Audit Officer	
	(ii) Asst. Audit Officer/Supervisor	
	(iii) Senior Auditor/Auditor	
3	Period of audit	
4	Dates of commencement and completion of audit (Extension of time, if any, granted may be separately indicated)	
5	Whether Entry Conference was held with the Audited Entity? If yes, enclose Minutes/Record of discussions. If no, provide reasons	
6	Number of potential paras (drawing reference to para nos) included in Part —IIA of the Inspection Report	
7	Number of paras (drawing reference to para nos) relating to fraud or misappropriation, presumptive fraud and leakage of revenue etc	
8	Paras relating to persistent irregularities etc that needs to be brought to the notice of HOD through Management Letter.	
9	Briefly mention the challenges faced during audit (non-production of records, manpower or resource constraints, scope limitation etc) and how they were addressed during the course of audit.	
10	Suggestions for overcoming such challenges in future audits	
11	Whether Exit Conference was held and draft Inspection Report discussed with the Head/Nodal Officer of the Audited Entity. If no reasons may be indicated.	Minutes as per Annexure-A to be enclosed.
12	Date of submission or Draft Inspection Report and all working papers to Hqrs. (may be submitted within a period of 7 working days from the date of conclusion of audit)	

13	Reasons for delay in submission of draft IR etc. to Hqrs with reference to the allotted time period, if any.					
14	General remarks, if any					
	Part B (Details of Audit Process followed)					
1	Whether the allocation of duties amongst each member of the Audit Team (SAO/AAO/Sr. Auditor/Auditor) was prepared in line with the planned broad assignment plan and acknowledged by the respective party members? If no reasons and justification may be provided.				Allocation of duties as per Annexure-B to be enclosed	
2	Sampling methodology adopted (Use as many rows as Needed)				List of files/ vouchers/ other documents reviewed may be enclosed.	
	Sl No	Section/Wing being audited	Nature of document	No selected for Review	Percentage of selection	Sample method adopted
		Purchase/Works/ Establishment etc	Files/ Vouchers etc	(Indicate actual number selected)	(Indicate percentage for each category)	Random/ Stratified/ Judge-mental
3	Whether focus areas identified and procedures applied were as planned (with reference to the plan as approved by Group Officer before commencing the audit)? If no, reasons and justification may be provided.					
4	Whether all issues marked for examination by Group Officer on supervision/HQrs section have been addressed?				Compliance to Group Officer comments on supervision to be enclosed as per Annexure-C .	
5	Whether all works assigned as per allocation of duties were completed? if no, provide whether the reasons and Justifications are provided.				Certificate as per Annexure-D to be enclosed	
6	Briefly indicate the potential focus areas for next audit					
7	Whether daily diaries indicating the documents/records checked by team members of the Audit Team have been prepared, signed and enclosed?				Daily Dairy as per Annexure-E to be enclosed for each member	
8	Whether a certificate of obtaining sufficient and appropriate evidence (key documents) for the audit observations included in the Draft Inspection Report has been provided?				Certificate as per Annexure- F to be enclosed	

9	Whether the key documents have been referenced in the para and the source of evidence has been provided as footnotes?			
10	Please indicate the position of outstanding paras of previous Inspection Reports as under.			
	Period of Inspection Reports	No of paras outstanding (opening)	No.of paras outstanding (closing)	Reasons for the paras remaining outstanding
	1	2	3	4
11	Whether a certificate that the audit was conducted in accordance with the CAG's Auditing Standards 2017 has been provided?			Certificate as per Annexure-F to be enclosed
12	Whether a certificate that the audit party has complied with the Audit Quality Framework and Code of Ethics has been provided?			Certificate as per Annexure-F to be enclosed
Dated :				Sr. Audit Officer

Annexure-A

Sample Format of Minutes/Record of Discussions at the conclusion of Audit

Minutes of the Minutes held on _____ to discuss audit observations to be included in the draft inspection Report for the period _____ relating to the Ministry of _____ / Audited Entity _____

Present:

From Ministry's side	From Audit side

(Note:- The minor and procedural irregularities which were noticed during the course of audit have either been settled on spot after taking assurance from the auditee or have been issued to the Ministry in the shape of Test Audit Note).

The audit observations were discussed in detail and necessary clarifications, wherever sought, were given from the Audit side.

It was pointed out by Audit that initial replies from the Ministry in respect of audit observations were still awaited and the same may be furnished on priority. In response, the Ministry assured to send the replies at the earliest possible.

The meeting ended with vote of thanks.

Signature

Signature

(Name & Designation)
From Ministry's side

(Name & Designation)
From Audit side

Annexure-B

Proforma for Duty list of each member of the Audit Team

Duties assigned	Noted and signed (Acknowledgement)
1. SAO: Name	
2. AAO/Supervisor : Name	
3.Sr. Auditor/Auditor : Name	

Annexure-C

Follow up of supervision by the Group Officer

Name of the Audited Entity	Date of Supervision	Comments /Queries of the Group Officer	Action taken by the Audit Team on Comments/Queries

Annexure-D

Certificate at the conclusion of Audit

We have examined all the issues as per the duty list (except the following) and necessary audit observations based on audit scrutiny, have been issued.

Sl. No.	Brief particulars of the issues which could not be seen in audit	Reasons therefore [non availability of records, time constraints, shortage of manpower, other constraints/reasons]etc.
1		
2		

Sr. Audit Officer

Annexure-E

Daily Diary of each member of the Audit Team

Date	Brief details such as file number, item of work done, records seen and examined etc

(Signature)

(Name of the Officer & Designation)

Annexure-F

It is certified that certificate

- a) Sufficient and appropriate evidence (key documents) for the audit observations included in the Draft Inspection Report have been obtained and have been submitted along with the Draft Inspection Report
- b) That the audit was conducted in accordance with the CAG's Auditing Standards 2017
- c) the audit party has complied with the Audit Quality Framework and Code of Ethics

Sr. Audit Officer

Annexure-III

Statement showing the classification principles for categorisation of **Inspection Report** paras

Classification principle	Category	Part - II A	Part –II B
a) Nature of objection	1) Systemic issues 2) Isolated cases	Systemic issues: Systemic deficiencies/ weaknesses/ deviations (other than issues that are only procedural) subject to materiality as per (b) below. Isolated cases: Individual cases of deviations/violation and aberrations that relate to operational, functional and financial matters subject to materiality as per (b) below.	Systemic issues: Procedural deviations that do not significantly impair process(es), outputs and outcomes. Isolated cases: Individual cases of deviations/violation and aberrations that relate to establishment, personnel, administrative and other miscellaneous matters.
b) Materiality	1) Quantitative 2) Qualitative	Issues that are quantifiable (Quantitative) — Materiality value has to be determined for each audited entity. Issues where materiality is determined by context (Qualitative) Materiality has to be determined based on professional Judgement after considering various factors that are enumerated in Compliance Auditing guidelines (para5.11).	Cases of (a) above and those that ordinarily pertain to PART-IIA but are not material. However, cases that can be classified as trivial need not be reported.
c) Fraud and misappropriation , presumptive fraud, Leakage of revenue	NA	All cases to be taken as Part-IIA.	NA

Annexure-IV
Matrix for grading the Inspection Reports.

SI No	Process Parameter	Allocated score	Scoring methodology	References to Compliance Auditing Guidelines
1	Planning	30		Chapter 4
1 (a)	Desk review- Understanding the auditable entity			
	Review of guard file, data analysis and understanding internal controls. This should comprise review of both internal documents and external applicable data base/data.	10	<p>This has two dimensions.</p> <p>Review of internal documents (Max score- 5): A comprehensive review of the entire range of available documents would yield the maximum score of 5 and a limited/restricted review would have to be correspondingly scored lower than 5.</p> <p>Review of internal documents include budgets-financial and outcome, rules/regulations, past audit findings etc.</p> <p>Review of relevant external databases (Maxscore-5): A comprehensive review of the entire range of available data/data sets/reports would yield the maximum score of 5 and a limited/restrictive review would have to be correspondingly scored lower than 5.</p> <p>Review of external data includes data analysis of relevant external databases, reports/statistics of Govt etc.</p>	Paras 4.3, 4.10 to 4.15, 4.20 and HQrs guidelines on Data analytics and compliance audit
	Identification of potential risk/ focus areas	10	<p>This has two dimensions.</p> <p>Focus areas from past audits (Max score -5): Identification of persistent irregularities, systemic issues emerging from past audit findings would be scored based on the range of areas identified up to a maximum of 5.</p> <p>New focus areas (Max score- 5): Identification of any new focus area(s) would</p>	

			yield a score of 5.	
1 (b)	Audit plan - Planning audit procedures			
	Determination of scope of audit and Audit Objectives	05	Determining the scope and audit objectives duly approved by the Group Officer (as per the prescribed template) prior to commencement of audit would fetch a score of 5. Not doing so would yield a score of zero.	Paras 4.6 to 4.8
	Deciding the assignment plan for team members, audit procedures and preparation of audit design matrix if applicable	05	Deciding the assignment plan and broad audit procedure duly approved by the Group Officer (as per the envisaged template) prior to commencement of audit would fetch a score of 5. Not doing so would yield a score of zero.	Paras 4.16 and 4.17
2	Conducting the audit	45		Chapter 5
2 (a)	Findings and evidence			
	Extent of findings from identified risk/focus areas	25	<p>The score against this parameter would have to be determined on the basis of the percentage/rate of conversion of risk focus areas identified (as at 1(a) above) into findings in the Inspection Report. The specific findings from other than focus areas included in the Inspection Report would also be considered.</p> <p>A) Clear cases of overpayments/wasteful or infructuous expenditure/leakage of revenue/revenue foregone or short collected/frauds or presumptive frauds /losses /non-compliance with laws or rules/ violation of contractual obligations/ undue favour to contractors/service providers (scoring to be based on proportion of such paras to total paras in IR e.g if all paras in the IR fall in this category it would fetch full score of 25. If 60% of the paras fall in this category it would fetch a score of 15 i.e 60% of 25) — (Max score 25)</p>	Paras 5.10 to 5.14

			<p>B) Clear cases of idle investments/blocking of funds/delays in procurements, commissioning of equipment, project execution and diversion or mis-utilisation of funds (scoring to be based on proportion of such paras to total paras in IR e.g if all paras in the IR fall in this category it would fetch full score of 15. If 20% of the paras fall in this category it would fetch a score of 3 i.e 20% of 15)—(Max score 15)</p> <p>C) Procedural issues either not involving financial implications or having financial implications lower than materiality (scoring based on proportion of such paras in IR e.g if all paras in the IR fall in this category it would <i>fetch</i> full score of 5. If 20% of the paras fall in this category it would fetch a score of 1 i.e 20% of 05)—(Max score-5)</p> <p>In case of ‘NIL’ Inspection Reports, the conduct of audit has to be evaluated against the nature of the audited entity (high risk/ medium risk/low risk) focus areas that have been pursued against applicable audit criteria. The scoring would be based on proportion of focus areas that were pursued vis-à-vis that were identified during planning it age and compliance to the envisaged audit process(if all areas were satisfactorily pursued against applicable audit criteria and the audit process was followed it would yield a full score of 25 else the score would have to be proportionately reduced)</p>	
	Extent of sufficient and appropriate Evidence(Key documents) obtained and evaluated.	10	<p>Part II A- (Max Score -8): The score against this parameter would have to be determined on the basis of the percentage of paras in the Inspection Report for which sufficient and appropriate evidence have been obtained and evaluated. (e.g. If the IR has 20 Part IIA paras and full set of KDs (evidence)have been obtained for only 14 paras(70% of paras), this parameter would fetch a score of 5.6 (70% of the maximum allocated score of 8)</p> <p>PART IIB—(Maxscore2) The score against this parameter would be on similar basis as envisaged for Part IIA paras above.</p>	Paras 5.5, 5.6, 5.10 to 5.14
2 (b)	Documentation			Paras 5.15 to 5.19

	Preparation of Audit file and documentation of Working papers -Extent of field work done-	10	Preparation of Audit file comprehensively as envisaged in Compliance Auditing Guidelines and containing the audit strategy, scope and methodology, sample selection, audit procedures applied, Audit Design and Audit Findings matrices (where applicable) etc and documenting the working papers comprehensively as envisaged in Compliance Auditing Guidelines and detailing the extent of work done, contracts/agreements examined etc would yield the full score of 10. The score against this parameter would have to be proportionately reduced based on the extent of gaps in documentation observed during the process vetting the IR. This is applicable for NIL IRs also.	
3	Reporting	25		Chapter 6
3(a)	Drafting and presentation			
	Drafting quality	05	The score against this parameter would have to be determined on the basis of extent of revision that was necessary while vetting the IR. This is not applicable for NIL IRs.	Para6.5 and Hqrs guidelines
	Appropriate classification of paras into Part—IIA and Part- IIB.	05	The score against this parameter would have to be determined on the basis of the proportion of paras that were incorrectly classified to the total paras. (e.g if two out of six paras in the IR were incorrectly classified (which had to be rectified during vetting process) ie. 30% incorrectly classified and 70% correctly classified ,the score to be awarded would be 3.5(70% of the total score).This is not applicable for NIL IRs.	Guidelines issued by Hqrs.
	Mortality of paras	05	The score against this parameter would be determined on the basis of Per centage of paras retained (number of paras retained wrt total paras in Draft IR) during the vetting process. i.e if 80% of the paras have been retained, the score to be awarded would be 4 (80% of the total score). This is not applicable for NIL IRs.	
3 (b)	Timeliness			Para 6.4

	Submission of Draft IR	05	Dispatch of Draft IR/ emailing the Draft IR promptly (7 days) would yield the full score of 5, which would be proportionately reduced for delays as under: Delay up to five days: ...4 Delay up to seven days:3 Delay up to nine days:. 2 Delay of 12 days: :1 Delay > 12 days :0 This would apply to NIL IR also	
	Issue of IR	05	Issue of IR promptly within the specified time (30 days) would yield the full score of 5, which would be proportionately reduced for delays as under: Delay up to five days :4 .Delay of one week : 3 .Delay of 10days 2 .Delay of two weeks 1 .Delay of two weeks :0 .This would apply to NIL IR also	
	Total	100		

IR Grading

Score of IR	Less than 25	26-30	31-35	36-40	41-45	46-50	51-60	61-70	71-80	81-90	91-100
IR Grade	0	1	2	3	4	5	6	7	8	9	10

(CAG's Guidance Note number 226 – 09/PPG/2017 dated: 23rd August 2017)

CHAPTER- XIII

INTEGRATED AUDIT OF DEPARTMENT

13.01 Audit Objectives And Scope: Integrated audit of a department will involve examination of the efficiency and economy in functioning and significant activities against the backdrop of its mandate and policies. This audit will be a combination of the traditional financial audit and efficiency-cum-performance audit and involve examination of the quality of financial management including soundness and appropriateness of internal control systems in its key areas of activity and audit of Value for money (VFM) or Economy, Efficiency and Effectiveness (3Es) covering management and delivery of programmes and services. For effective integrated audit, a clear understanding of the mandate of the department is essential. The main focus of the audit effort will be to examine and comment upon the extent to which the department is functioning within its mandate while trying to achieve its goals and objectives. The thrust should, therefore, be at centre around the evaluation of the performance of the department with reference to its mandate as envisaged in the allocation of business rules. At the same time the linkages between the different tiers of the department namely the Secretariat, the Directorate and the Field Units should be clearly established and evaluated. In order to achieve the desired results within a given time frame, it will be necessary to identify the department's significant areas of activity for detailed examination based on a clear understanding of its organisational structure and characteristics in their totality. The audit objectives in respect of each significant activity should be defined as clearly as possible so as to facilitate the determination of the audit criteria or standards and benchmarks against which the department's performance can be evaluated for arriving at appropriate audit conclusions. Clarity in audit objectives will also ensure to focus and concentrate on the more significant aspects of the entity and its operations in order to avoid wastage of precious audit resources.

13.02 Different Stages of Integrated Audit: Integrated audit of a department may involve the following stages. (i) Survey of the department's mandate and activities and identification of its significant areas of activity for detailed examination. (ii) Definition of audit objectives for each component in as clear terms as possible and of the standards and benchmarks for formulation of the audit criteria. (iii) Development of the detailed audit programme for collection and examination of evidence indicating inter alia time schedules, distribution of work, supervision strategy etc. (iv) Arriving at decisions on the format for reporting the significant audit conclusions and formulation of recommendations. (v) Normally, the period covered for the purpose of integrated audit would be three years.

13.03 Approach to Integrated Audit: Under this approach wider comprehensive audit of government department is necessary along with review of schemes and programmes undertaken by the department. This audit will also require the adoption of new audit methodologies and techniques including the use of electronic database and even use of Computerised Auditing Techniques (CAT) wherever computerised systems are in use on a large scale. Integrated Audit of a department may ideally begin at the level of the government and the directorate and should be preceded by a detailed study to obtain an integrated view of the department on the matters as stated here. (a) Objectives of the

department (b) Rules of business (c) Annual administrative reports (d) Annual action plans (e) Budget documents (f) Performance budgets (g) Plan documents (h) Central as well as State schemes implemented by the department (i) Policy initiatives taken by the department (j) Reports of Parliamentary Committees if any and other external agencies (k) Internal manuals. In addition, information gathered from the accounts of the department concerned and from the central audit of vouchers as well as audit findings pertaining to the department should be carefully studied and issues identified for further examination. Drawing and Disbursing Officers in the department should be selected for detailed audit based on this information. During Central Audit, a database of all contingent vouchers of the department should be prepared and analysed. Sanctions issued by the department may also be collected and a database should be prepared for further analysis with reference to the corresponding vouchers. Inputs available in the A & E office such as monthly civil accounts, appropriation accounts, appreciation notes sent to Government, lists of unadjusted abstract contingent bills and 'nil' payment vouchers, lacunae noticed in the paid vouchers, accounting errors etc. should be made use of for the identification of issues to be examined by the audit teams entrusted with integrated audit. For this purpose, the PAG/AG (Audit-I) should interact extensively with the Accountant General (A&E).

13.04 Conduct of Audit: Before taking up the field inspection for integrated audit, the Accountant General should meet the Secretary and explain about the scope and purpose of the integrated audit and the objectives sought to be achieved. The Secretary may be requested to arrange a presentation of the department's main activities to facilitate better understanding of its mandate, objectives and functions. Similarly, a detailed and wide-ranging discussion should be held with other sufficiently senior personnel of the department that should also be attended by the members of the audit teams. Thereafter audit of the selected DDOs may be taken up simultaneously by deputing the requisite number of audit teams. Each of these teams or parties may be provided with the information that had emerged from the central audit as well as audit at the levels of the Government and the Directorate.

13.05 Audit Scrutiny of Budget Formulation: Apart from examining the current practices and procedures relating to budget formulation and adherence to the relevant rules and instructions issued in this regard by the Finance Department, the aspects described here could also be examined for possible comment. (i) Adequacy of the rules and instructions relating to the formulation of budget and revised estimates, responsibilities of different functionaries and shortcomings, if any. (ii) Adherence by the DDOs to the time schedules prescribed for submission of estimates. (iii) Extent of scrutiny exercised by the Directorate and the Department on the estimates furnished by the DDOs and the justification furnished in support of original estimates and estimates of additional requirements. (iv) Adequacy and effectiveness of the role played by and the involvement of the administrative Secretary and Head of the Department in formulating the departmental budget and the extent to which designated responsibilities are discharged by them. Besides, the quality and reliability of the budget estimates could be assessed by in-depth scrutiny of few estimates with reference to the actual expenditure.

13.06 Audit Scrutiny of Financial Management: Financial rules provide that the Head of the Administrative Department should exercise effective control over expenditure. The aspects described here could be looked into by the Audit in this context. (i) Systems and arrangements available for determination of allotment of funds to various drawing and disbursing officers and their timely release and the adequacy of these arrangements. (ii) Arrangements for communication of allotments to the DDOs, the Accountant General and the Treasury Officers concerned. (iii) Machinery for exercising control on expenditure and monitoring on expenditure incurred by field units and its adequacy. (iv) Timely receipt of monthly expenditure statements from the DDOs, arrangements for their documentation and analysis and the extent to which these are utilised for the purpose of exercising effective control over expenditure. Statistical information may also be compiled for inclusion in the review on (a) the number of DDOs and others from whom the monthly statements were to be received (b) the total number of expenditure statements due in a year and (c) the number of statements actually received. The reasons for their non-receipt or belated receipt may also be analyzed and deficiencies in the relevant systems and procedures highlighted. (v) Review of many schemes implemented by the department as possible to focus attention on (a) unconscionable or persistent delays in release of funds to the DDOs for implementation of the schemes (b) instances of withdrawal of funds in anticipation of requirements (c) irregular diversion of funds and arrangements available centrally for control over utilization and prevention of diversions (d) arrangements for monitoring expenditure on schemes and their adequacy (e) rush of expenditure towards the close of the financial year and (f) instances of drawl of funds to avoid lapses of grants and their irregular retention outside government accounts. (vi) Unusual or extraordinary items of expenditure. (vii) Outstanding loans and advances to departmental personnel and outside parties and adequacy of arrangements for their pursuance and settlement. (viii) Aspects relating to Appropriation Audit and analysis of reasons for excesses over voted grants and charged appropriations, savings in grants and appropriations and surrenders. (ix) Reconciliation of departmental expenditure with that accounted for by the Accountant General and its impact. Non-adherence to the procedures prescribed in this regard and its adverse consequences may also be highlighted.

13.07 Audit of Grants to Autonomous Bodies/Non-Governmental Organizations etc: Grants provided by the department to various autonomous institutions, non-governmental organizations etc. should be examined with a view to ascertaining whether (i) the department has evolved systems and procedures to regulate the release of funds and to monitor their utilization and these are adequate to safeguard against miss utilisation and other irregularities and (ii) the systems and procedures are appropriate and adequate for the achievement of the department's objectives.

13.08 Programme Management: Audit may examine the arrangements and machinery in place for the formulation, planning, implementation, monitoring and evaluation of various schemes and projects and frame appropriate comments from the perspective of three Es or VFM Audit. For this purpose, a few major schemes may have to be examined in detail at the micro level. Availability of proper and adequate documentation in respect of various schemes may also be looked into and appropriately commented upon.

13.09 Personnel Management: Audit may examine the arrangements for manpower planning assessment of requirements and utilisation of manpower, procedures for creation of posts, transfer and rotation policies, overstaffing, delays in provisioning, assessment of training needs, expenditure on training and utilisation of trained manpower etc. The detailed principles and guidelines dealt with Manpower Audit may also be duly kept in view.

13.10 Inventory Management and Control: Some of the major contracts and agreements entered into by the department and its field units for purchases and supplies may be scrutinised to highlight deficiencies in systems and procedures, irregularities in purchases, instances of purchases being resorted to without adequate justification or even in the absence of actual requirements resulting in unutilised inventories etc. Adequacy of the arrangements for inventory management and control may also be examined and commented upon.

13.11 Internal Control: Integrated audit should comprehensively and in a focussed manner comment on the quality of internal control exercised by the department at Secretariat, Directorate and field units' level in the spheres of financial management, programme management and personnel management. For this purpose, Audit will need to ascertain whether (a) adequate control mechanisms have been prescribed (b) these are appropriate and adequate and (c) such controls as are available are in fact operative and functioning.

13.12 Accountability Aspects: Audit should examine and comment upon the arrangements for securing and enforcing accountability at different levels of the department with particular reference to the availability of appropriate internal control mechanisms in all areas of its functioning and utilisation of these mechanisms in a manner that facilitates the achievement of the overall goals and objectives of the department.

13.13 Results of Audit: Results of these audits may be summarised and if necessary, another spell of audit may be arranged at the Government and Directorate levels. In framing suggestions or recommendations based on the results of audit, the governing principles prescribed in this regard in the Auditing Standards should be scrupulously adhered to and after the conclusion of the audit, the Accountant General should write **demi** officially to the Secretary of the Department briefing him the main findings of audit with proposal and request for a discussion thereon. Any recommendations or suggestions should be included in the Audit Report after discussion with the Secretary. For giving wider coverage and emphasis involved in integrated audit, professional approach is required that concentrates on highlighting only the significant findings of comprehensive nature in the report and avoids trivia. If this is not kept in mind, the report may **turn out** to be a loose collection of disparate audit observations that do not present a complete picture of the department or provide any insights of its functioning and fail to evoke the interest or engage the serious attention of legislators, policy formulators, the press or the lay readers.

CHAPTER- XIV

DEPARTMENTAL CENTRIC AUDIT

14.01 Nature And Scope of Department Centric Audit:- Approach of department-centric audit is to facilitate and enable assurance oriented comprehensive audit of government departments mainly aimed at audit of State Government Department but equally relevant for Central Government Expenditure and Revenue Departments also. Department based audit of Finance Ministry/Finance Departments can be incorporated within the scope of sections 13 and 16 of CAG (DPC) Act, 1971 in which focus could be made on the issues of (i) Resource Mobilization (tax, non tax and borrowing), (ii) Resource Allocation (Budgeting) and (iii) Aggregate Fiscal Discipline (debt and deficit).

14.02 Comprehensive Audit:- Comprehensive audit under department-centric audit approach would mean simultaneously conducting financial audit, compliance audit and review of operational performance of the department and its unit in a top down manner. This framework facilitates **operationalization** of Financial Attest Audit Manual (Financial Audit) to comment on the extent of reliability of the financial reporting which is the primary responsibility of Audit. It enables compliance audit in more structured way to comment on how well financial resources and other sources are safeguarded by pointing out the incidence and extent of deficiencies in such compliance. Review of operational performance involves measuring the extent of achievement to which service delivery objective or other operational objectives were achieved. Comprehensive audit would also mean that a department is covered in its entirety including PSUs, industrial/mining units and autonomous bodies in addition to the DDOs. Transaction audit and performance audit of PSUs and Autonomous Bodies get integrated in this approach. It would help to see to what extent the related PSU or Autonomous Body meets the mandate of the department and whether continues to be relevant. PSUs generally are found under Economic Services and Autonomous Bodies under Social Services. It also facilitates comprehensive audit of PRIs/Local Bodies through vertical (Devolution of Funds) and horizontal (Implementation issues) integration of related information and audit findings. Audit under this approach is independent examination of records of financial and related activities of an entity using generally accepted auditing practices in order to provide intended users with information, conclusions or opinions based on sufficient appropriate evidence on whether the entity has achieved its service delivery objectives or similar operational objectives with economy, efficiency and effectiveness; it's financial reporting was reliable and resources (resources acquired/created through financial resources) for which it is responsible or entrusted with were safeguard from loss, embezzlement (act of dishonestly appropriating or secreting assets by those to whom such assets have been entrusted), misuse (use wrongly) and waste (use carelessly, extravagantly, without purpose) etc. Review of internal controls are also conducted or carried out with substantive testing under department centric audit.

14.03 Principle:- Department-centric audit is an integrated audit of a department covering financial, compliance and performance audit. Department-centric audit is guided by four principles. **(i) Audit Planning:-** It involves covering a significant number of DDOs under a department viewing them as independent units with resources, power

and responsibility and at the same time as a part of the organisational structure of the department that contributes to fulfil department's operational mandate, overall responsibility to safeguard resources and reliable financial reporting. **(ii) Review of Internal Control:-** Review of internal controls and substantive testing is carried out simultaneously to identify the incidence and extent of deficiencies /deviations/violations etc. in the service delivery for which the department is created to fulfil a particular mandate. **(iii) Review of Accounting/Financial Reporting, Compliance And Operational Performance:-** Review of internal controls and substantive testing is carried out distinctly for three streams of accounting/financial reporting, compliance and operational performance. They respectively seek to achieve major objectives of reliable financial reporting, safeguarding resources and fulfilling mandate of the department. **(iv) Audit Findings:** Audit findings/observations in Inspection Reports would be with reference to each set of controls serving sub-objective, objective and major objectives in three distinct streams and labelled by the Inspecting Officer and tagged suitably as illustrations of deficiencies in financial reporting, compliance and performance aspect of DDOs. IRs would continue to be issued to DDOs in a suitable format that would reflect its functioning in three streams. IRs would feature only those observations to which corrective action lies at the DDO level. Deficiencies/Irregularities of similar nature across the DDOs would be aggregated to prepare a Consolidated Inspection Report (CIR) or Management Letter to be issued to HOD/CCO level. Consolidated Inspection Report of each major department is a potential standalone Audit Report.

14.04 Planning for Audit of a Department:- Audit of a department requires one set of audit party consisting of 3 to 5 parties depending on the size of the department, number of DDOs, expenditure involved and nature of operations and availability of manpower. Applicable system of risk analysis and sample selection could be used for selection of DDOs. Advice for Statistical Sampling can be obtained from the Department's Nodal Group Officer or Statistical Adviser at Headquarter. The test check sample for the audit parties visiting the DDOs would be limited to April onwards and expand progressively during the course of year. The availability of vouchers for FAA Parties in main office would follow the same pattern. General review for the purpose of compliance audit and operational performance would cover two years ending preceding March with a test check of any selected months in that period. It may extend backward till the year of last audit only on need basis where the nature of transaction has caused pecuniary loss to government and needs to be measured. FAA parties can play crucial role in Financial Audit and Compliance Audit of the vouchers of the department that are not taken up under department centric audit plan in that year and AGs would derive assurance from CAPs for such departments while certifying the Finance and Appropriation Accounts.

14.05 Execution of Department-Centric Audit:- The full advantage of Department-centric audit can be achieved only when all important aspects of the functioning of a Department/CCO are examined in audit through review of related internal controls and substantive testing covering of all the three streams of audit viz, financial, compliance and performance being fully aware of their relationships.

14.06 Coordination, Supervision and Audit Conclusions:- Since the Department-centric audit seeks to draw department wise audit conclusions, it is important that it receives higher level supervision of AGs at the stage of planning and group officer level at all levels of execution. It also needs good coordination between Lead Audit Party and Local Audit Parties and in turn with FAA Parties. Responsibilities of the Lead Audit Party include planning the audit of department, entry conference, preparation of detailed guidelines, coordinating the execution of audits of DDOs by LAPs, itself conducting audit of assigned DDOs, office of CCO and HOD, conclusions of findings, preparation of Draft CIR, management letter and exit conference. Conclusions should be drawn on the basis of substantive testing covering of all the three streams of audit viz, financial, compliance and performance under proper practice and guidance of auditing standards.

14.07 Reporting of Audit Findings:- Findings arising out of audit of DDOs will continue to be issued as IRs. Deficiencies of similar nature across the department may be aggregated to prepare a consolidated Inspection Report (CIR). This report may be in three different streams of Financial, Compliance and Operational Performance Audit. Each type of audit findings in the CIR is indicative of failure of a control. The check list prepared by Lead Team for the purpose of field audit should capture all the important controls in three streams separately and the general review of files and test check of transactions in the field audit would be with reference to the check list step by step. If incidence and extent of a particular deficiency is low, it would mean that particular control exists and was exercised well. This assurance might become input to the legislature for allocation of resources to that Department and even change in policy. CIR or Management Letter is an intermediary product between IR and AR. It is meant to be issued by AG to the secretary. CIR would be annexure to the Management Letter or in lieu of Management Letter depending on the size of the Department and volume of audit output.

CHAPTER-XV

FOLLOW UP AUDIT

15.01 Guidance Note :-

Performance Audit Guidelines, 2014 provide guidance on the follow-up procedures in a comprehensive manner. Performance audit reports are essentially a means to improving public sector performance and accountability. This can be achieved through implementation of the recommendations contained in the performance audits. Consistent and systematic follow-up process by the Department will contribute significantly to the effectiveness of performance audit in improving the programme implementation.

Follow-up audit refers to the situation where the auditor examines the corrective actions the audited entity, or any other responsible party, has taken on the basis of the of previous performance audits. It is an independent activity that increases the value of the audit process by studying the impact of the audit. It also has the effect of future audit work. It encourages the user of the reports and the audited to take the audit reports seriously and proves useful performance indicators for the auditors.

Bullet 2 Paragraph 8.3 of the Performance Audit Guidelines state:

“In cases of the performance audits that are not selected for detailed examination, Accountant General will carry out follow-up procedures to examine the extent of the implementation of the recommendations, particularly those which had been accepted by the entity”.

To implement the above requirement, the following instructions may be observed.

15.02 Selection of Topics for Follow-Up Audit :-

At least one follow-up audit may be taken up for each State Government and included in the annual audit plan. In case of Union Government, one follow-up audit may be taken up in each sector. Selection of topic should be based on the following criteria:

- Performance audits which have been not selected by PAC/COPU and are not expected to be picked up for examination in near future should be considered for selection.
- Audits conducted at least 3 years ago should be considered, as sufficient time should be available to the audited entities to implement the recommendations.
- Follow-up audits should be taken of such performance audits where the audited entity has accepted recommendations given by Audit.

While selecting a follow-up, the Accountant General should consider the following questions:

- Has the initial issue identified in the earlier audit evolved with time?
- To what extent the changes have altered the risks associated with issue raised in the original report?

The focus should be to determine the progress achieved in resolving the issues originally identified. However, issues may evolve with time, and focusing strictly on recommendations may miss a new concern, as the recommendations may not be fully relevant to new circumstances or the evolution of the issue. These concerns should be in

mind while planning and conducting the audit as well at the time of reporting audit findings.

15.03. Audit Scope And Methodology :-

The main objective of conducting a follow-up audit is to assess the progress the audited entity has made toward implementing recommendations of a previous performance audit. A follow-up should not merely be restricted to checking whether the recommendations have been implemented but should focus on whether the audited entity has adequately addressed the problem and remedied the underlying conditions. The auditor should adopt an unbiased and independent approach.

Follow-up audit should be initiated as a desk review. A well-structured questionnaire could be issued to the audited entity and those charged with governance of the audited entity to elicit an update on the status of the action taken to implement the recommendations from earlier audits. The request should include the following questions:

- What action plan or strategy has been drawn by audited entities to implement the accepted recommendations?
- What efforts have been made to implement the action plan or strategy?
- How well are these efforts progressing?

Depending upon the responses received, field audit may be undertaken to validate the action reported by the audited entity. The extent of field audit to be undertaken would be decided after the responses are analysed. Audit parties may also be deputed to collect the responses of the audited entities. Interviews of the responsible officers from audited entities can also be taken as the evidence for this purpose.

Ideally, the original audit team members should carry out the follow-up, but this may not always be possible because of conflicting scheduling needs or other reasons. However, it is important to ensure that team members assigned to the audit follow-up have the appropriate understanding of the subject matter of the audit. A session at the initiation of the follow-up for a comprehensive briefing or orientation to transfer the knowledge from the original audit team should be organized, if possible.

15.04 Audit Findings :-

The status of implementation of accepted recommendations can fall in following categories:

- Insignificant or No progress - assurance without concrete plans is regarded as insignificant progress.
- Substantial implementation - Structure and processes are in place and integrated in some parts of the organization, and some achieved results have been identified.
- Full implementation - Structures and processes are operating as intended and implemented fully in all intended areas of the organization.

At the end of the follow-up, the audit team should present and discuss the results with the audited entity and prepare a report.

15.05 Reporting the Results of Audit :-

The follow-up audit should result in a report that provides an assessment of the adequacy of the corrective action taken to resolve previously reported issues. The report should not normally repeat recommendations from the previous report. Also, if there are observations and conclusions on new issues, the audit team may make "new" recommendations to address them.

The decision of presenting the follow-up report to the legislature would be taken depending upon the significance of the audit results. The results of audit could be presented as a chapter in the Audit Report or appear as a para in the relevant chapter. Sometimes the audit team identifies issues that are important enough to be brought to the attention of entity management but not necessarily to the attention of the legislature. This may be done through a management letter, a presentation or at a meeting.

While conducting audit follow-up, the audit team may find that the issues have evolved and need to be redefined. New issues may also be identified and judged from a risk perspective. In such a scenario, the key issue should be identify for considering a fresh Audit

(CAG's letter No. 40-PPG/2012 of February 2015)

CHAPTER- XVI

BIG DATA MANAGEMENT POLICY

16.01 Introduction:-

This document states the Indian Audit & Account Department's policy and intent for dealing with big data. In today's word data is a valuable asset. In the course of performing its accounting, entitlement and auditing functions, the Indian Audit & Account Department (Department) creates, gathers and analyses a large volume of data and therefore a robust Big Data Management framework is essential.

As governments and other organizations transition into digital environment, they generate, process and store voluminous data. Also, useful and relevant data in disparate forms are incessantly produced by various agencies and entities, such as Census data, NSSO data, Economic survey, industry/domain specific data etc. When collated, they provide the contextual framework and valuable insight into the functioning of an audited organization.

16.02. Big Data:-

Big Data refers to extremely large, complex data sets that exceed the traditional processing capabilities of the IT infrastructure due to their size, format diversity and speed of generation. It is collated from all imaginable source and leverages information as the vital asset. It includes:

- Structured and unstructured data
- Internal and external data
- Formal and informal communication.

There are three dimensions of big data which are to be considered while designing a management framework for big data

1) Distinguishing features

- a. Volume - quantity, the amount of data
- b. Variety - formats, the data types, data from various sources
- c. Velocity - speed, the speed of data going in and out
- d. Veracity - quality of data

2) Processes

- a. capture- obtaining data in various forms
- b. curate -synthesizing data for use and reuse
- c. store -preservation
- d. search -exploration
- e. share-distribution and access
- f. transfer- move

3) Results - visualization and analysis

16.03 Opportunities:-

Capacity and infrastructure limitations have thus far restricted the reach of auditors in the big data, environment. The advent of big data marks a paradigm shift, which by design envisages synthesizing and integrating relevant data from various sources and in various

formats to transform data into actionable information. This aims to enhance the efficiency and effectiveness of audits.

The opportunity for the Department arises from the following three factors:

- 1.) **Technology Explosion:-** Cost effective tools, technology platforms and solutions are now available to handle and analyse big data.
- 2.) **Transformational Impact for Audit:-** Big data analytics enhances risk assessment by discovering red flags, outliers, abnormal behaviour and by providing deeper insights. It facilitates predictive analysis and use of advanced statistics for transformation of data into actionable information. It thus, contributes to greater level of assurance in audits.
- 3.) **Aid to Governance:-** It enables the CAG to aid governance by providing insights to the executive for evidence-based decision making.

16.04 The Policy Framework:-

In order to build on the above-mentioned opportunities, this policy framework addresses following issues:

1. Identification of data sources
2. Establishing Data Management Protocols
3. Digital auditing, Data analytics and Visualization strategy
4. Infrastructure, capacity building and change management

1) Identification of Data Sources :-

Identification of the various sources of data available and accessible to the Department is the corner stone of the data management framework. Data can be categorized as:

1.1 Internal Data Sources - Data Created/Maintained by the Department :-

Data under this category provides a greater flexibility for usage and comprises the following:

- a. Combined Finance and Revenue Accounts
- b. Voucher Level Computerization database
- c. GPF and Pension data in A&E offices
- d. Data generated through Audit process
- e. Any other data available in the Department

1.2 External Data Sources:-

- i. Audited entities' data sources -This data is available with the Department in its professional capacity and its usage involves sensitivity as mentioned in the **next section**. Such data comprises the following:
 - a. Financial and non-financial data of audited entities
 - b. Programme specific data including beneficiary databases
 - c. Other data pertaining to audited entities
- ii. Third party data sources-This comprises data, which are available in the public domain such as:

Data Published by Government and Statutory Authorities Like:-

- Census data
- NSSO data
- Data published by the various Ministries / Departments.

- Data available in data.gov.in
- Reports of various commissions
- Other Reports and data pertaining to Union Government /States

Other data available in public domain:

- Surveys and information published by NGOs
- Industry specific information published by CII, FICCI/NASSCOM.
- Sector specific information published by various organizations
- Social media etc.

2) Establishing Data Management Protocols :-

2.1 The Data Management protocols have to ensure that data satisfies the following characteristics.

- Authenticity** - Data is created through the process it claims
- Integrity** - Data is complete, accurate and trustworthy.
- Relevance** - Data is appropriate and relevant for the identified purpose.
- Usability**- Data is readily accessible in a convenient manner.
- Security** - Data is secure and accessible only to authorised parties.

The data management protocols would also address:

- data access arrangements including agreements with external sources
- data sensitivities associated with access and usage of various sources of data
- criteria for assessing veracity of data involving an assessment of strengths and weaknesses of various sources and their application at various stages of audit (risk assessment, sample selection, benchmarking, reporting).
- privacy and confidentiality issues covering procedures of aggregation and anonymisation and
- compliance with legislative and regulatory requirements.

2.2 These protocols will be prepared by the Nodal Authority to be created within iCISA.

3) Digital Auditing, Data Analytics and Visualization Strategy:-

Nodal Authority will develop guidelines for Digital Auditing, Data Analytics and Visualisation.

3.1 Digital Auditing :-

Digital auditing refers to the improved audit process that supports advanced continuous monitoring and continuous auditing.

Digital auditing involves a shift from analysis of a sample of transactions to a review of 100% of the transactions. With automated frequent analysis of data, audit could perform control and risk assessments real time or near real time. Data could be analyzed for detecting anomalies at the transaction level, indicators of control deficiencies and emerging risks. This approach emphasizes on audit techniques designed to focus on high risk areas thereby enhancing efficiency.

3.2 Data Analytics and Visualization :-

Data Analytics refers to the process of integration and synthesis of the varied forms of data to

- provide deep insights
- discover patterns (correlation and causation)
- throw-up abnormal **behaviour**, red flags and outliers that are otherwise hidden
- predict and plan audits
- support audit analysis

Data visualization and big data analytics are the value added exploratory functions that enable discovery of relationships between variables and broader trends of risk. Data Analytics leverages the evidence based approach and is deployed the audit planning stage for a macro level analysis of almost the entire range of data, rather than on a small representative sample. It requires knowing what data is needed to answer questions, where to find it and having the analytic tools to capitalize on that knowledge. It is through these platforms that real, value is realized from big data.

4) Infrastructure, Capacity Building and Change Management :-

4.1 The Nodal Authority at iCISA will be responsible for creation of necessary infrastructure and drawing up secure protocols for creation of data warehouse, accessing and use of data. A detailed action plan with resource requirements and milestones encompassing the following will be prepared by the Nodal Authority:

- a) Investing in technology
- b) Selecting the right analytical tools
- c) Facilitation for Data Analytics and visualisation
- d) Sharing experiences and 'earnings from data usage

Necessary augmentation of resources human, financial and infrastructural will be provided to iCISA for the nodal authority to implement the policy.

4.2 Training wing at headquarters would be responsible for identifying and training key officials as data authors and/ or data administrators. It will also ensure training of all mat personnel in data analytics.

4.3. Information system wings at headquarters will be responsible for technology **Up - Gradation** required at iCISA and all other field offices for implementation of this policy framework.

4.4 Professional Practices Group (PPG) at headquarters will be responsible for periodic review of this framework, dissemination of best practices and exploring avenues for academic cooperation with the expert external agencies in this area.

3) Monitoring :-

A monitoring group will be set up at Headquarters for overseeing the implementation of this policy framework. The group will review the progress of work of the nodal authority vis-à-vis the action plan prepared by it.

(https://cag.gov.in/sites/default/files/cag_pdf/4jan2016/big_data.html)

CHAPTER-XVII

GUIDELINES ON DATA ANALYTICS

17.01 Introduction

Data analytics is the application of data science² approaches to gain insights from data. It involves a sequence of steps starting from collection of data, preparing the data and then applying various data analytic techniques to obtain relevant insights. The insights include, but are not limited to, trends, patterns, deviations, inconsistencies, and relationships among data elements identified through analysis, modeling or visualization, which can be used while planning and conducting audits. Data analytics adds a competitive advantage to enable information based decision making. These guidelines prescribe the methodology of employing data analytics in the auditing function of Indian Audit and Accounts Department (IA&AD). The data analytic principles and methods will, however, be applicable to the domains of accounting and administration.

Scope for individual initiative and professional Judgement

While these guidelines are prescriptive in nature, these are not intended to supersede the professional **Judgment** of the PAG/AG³. The PAG/AG is expected to make situation or subject specific adjustments to the provisions set out in these guidelines.

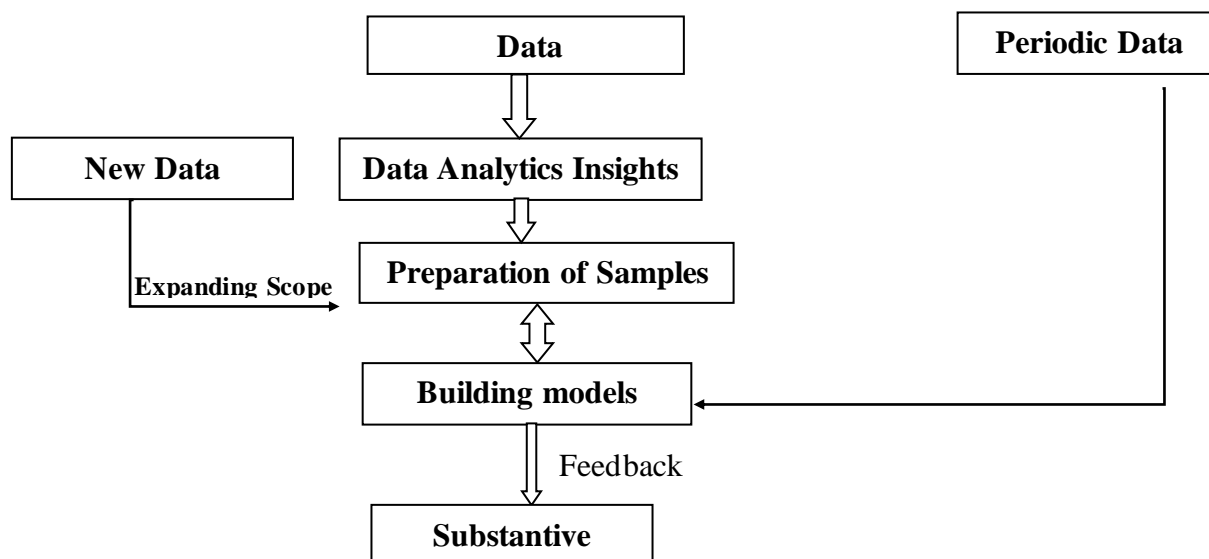
Data analytics in Audit

Data analytics begins with identification and collection of various data sources for a particular audit. The analysis of data through various data analytic techniques will yield insights on the working of the audited entity. The risk areas or areas of interest identified through such an exercise will assist in identifying audit objectives and developing an Audit Design Matrix. Data Analytics will also assist in identifying the sample of audit units where substantive checks will be conducted.

The various analyses can then be built into a re-executable Data Analytic Model and result of data analysis can be used repetitively with periodic updating of data. Thus, data analytics in IA & AD is not envisaged to be a one –off process for a specific audit, but is expected to evolve over time.

² Data Science refers to an emerging area of work concerned with the collection, preparation, analysis, visualization, management, and preservation of large collections of information. Although the name Data Science seems to connect most strongly with areas such as databases and computer science, many different kinds of skills - including non-mathematical skills - are needed - An Introduction to Data Science - Jeffrey Stanton, Syracuse University.

³ The term Accountant General includes all heads of Departments (HoD) of the rank of Senior Administrative Grade and above, within the IA&AD



The Centre for Data Management and Analytics (CDMA) will be the nodal body for steering data analytic activities in IA&AD. CDMA will provide guidance to the field offices on data analytics and pioneer research and development in the future direction of data analytics.

The data analytic activities in a field office will therefore be the responsibility of the Head of Department (HoD), who will constitute a Data Analytic Group. The Data Analytic Groups constituted in the field offices under the charge of a Group Officer will be responsible for steering data analytics in the field offices. The exercise of data analytics is therefore envisaged as a collaborative effort with technical knowledge of the Data Analytic Groups and domain expertise from functional groups in the field office, complementing each other. An indicative role assignment for data analytic activities is provided at *Annexure-1*.

Hiring of External Experts

In **specialized** areas, i.e data handling, applying advanced data analytic techniques or management of data repository, field offices could consider engagement of external experts, if such need is justified

17.02 Data Acquisition and Preparation

Data analytic process encompasses data acquisition, data preparation, data analysis, results and analytic models.

Sources of data

Identification of various sources of data available to the IA&AD is the corner stone of the data management framework. The Big Data Management Policy is categories various data sources. The details regarding data sources mentioned in para no. 16.04 may be referred.

Data Identification

As a part of collecting and maintaining a comprehensive data base on auditable entities, field offices should formulate a mechanism for identifying availability of electronic data with audited entities/third party data within their jurisdiction and updating them periodically.

Data acquisition

Data acquisition involves obtaining access to and collecting data keeping in view the ownership, security and reliability of data collected.

Data access

Since IA&AD is not the owner of several data sources, so availability of data would remain a challenge. However, it will be overcome by persuasion and monitoring with the audited entities taking support from relevant provisions of the CAG's (DP &CS), Act 1971 and Regulations on Audit and Accounts 2007

Data may be provided to the auditors on the entity's sites through access to the system. This can be read-only access without any transaction rights. The data may be provided through backup files created in the entity's environment and shared on a removable media with the auditors.

One of the ways to deal with data access is through involvement of audit from the design stage of the IT systems when it may be possible to incorporate the data requirements of audit into the system design. This would facilitate acquisition of data in the requisite format. To ensure this, field offices would need to convey the data requirements for audit to the concerned entities at the stage of important system developments thereby facilitating access to requisite data when the system is operational.

Data handling at different levels of data access modes

When the data is shared in removable media, the auditors need to have hardware compatible to run the media - CD, DVD, tape drive or an USB drive etc. Along with the capacity to run the media, the auditors need to have appropriate operating system and database application (like the RDBMS) where the data can be read from the media. Thus, an environment similar to the source from which data is received is to be created to be able to read the data. In electronic transfer of data, the data in file form is transferred using networks such as through mail, file transfer protocols etc. In online access, data is made available through cloud from a remote server. All field offices should endeavor to evolve an appropriate data access mechanism with the data source **organizations** so as to access data on a periodic/real time basis into their data repository/ data analytic models.

Collection of data

Data collection is the systematic approach of gathering and measuring information from a variety of sources to get a complete and accurate picture of an area of interest. The IT system should be studied and understood while collecting data, which would facilitate identification and requisition of relevant data.

While collecting data, the authenticity, integrity, relevance, usability and security of the data sets should be ensured.

The auditor should obtain a certificate stating that the data is complete and the same as in the IT system of the audited entity at the time of receiving data. An indicative template of such certificate is provided at ***Annexure-II***. It should be ensured that only authorized personnel handle data transfers from the data sources to the auditors. The access to such data should be through appropriate access controls to prevent any unauthorized access to data.

Data from an entity not within audit jurisdiction

Field offices may require data sets whose ownership is not with auditable entities under their audit jurisdiction. The field office may then seek the assistance of the concerned field office which has audit jurisdiction over such auditable entities and the concerned field office should provide all assistance in obtaining the required data sets.

Ownership of data

The ownership of the data sets remains that of the audited entity/ third party data sources and IA&AD holds this data only in a fiduciary capacity. Once the data sets are obtained from the data sources, the HoDs should assume the ownership of the data sets and should exercise such controls on security and confidentiality of the data as envisaged for the data owner in the audited entity. The concerns and instructions of the owners of data, if any, should be ascertained and kept in mind. The data provided by data sources must be kept in safe custody for reference and all analysis must be undertaken only in copies of the source data. Compliance to all rules, procedures and agreements regarding data security, confidentiality and use of data of the audited entity/ third party must be ensured by audit within the overall framework of data protection and security prescribed by IA&AD from time to time.

Data reliability

Data is said to be reliable when the data accurately captures the parameter it is representing. Data reliability is a function of authenticity, integrity, relevance and usability of data. Data reliability can be affected because of the methods of generation /capture of data. As IA&AD has to rely on data generated from other sources, it is important that reliability of each data source is understood *a priori* so that adequate caution can be exercised in its utilization.

Generally auditors would have limited means to ensure reliability of data while receiving data from the auditable entity as reliability can be assessed only after using the data in audit process, when analysis could reveal internal inconsistencies or incompleteness. However, auditors need to be vigilant about data reliability and exercise due precaution while obtaining data from auditable entities.

Data preparation

Data preparation is the process of organizing data for analytic purposes. It involves various activities such as restoration, importing of data, selection of database/table/record /field, joining datasets, appending datasets, cleansing, aggregation and treatment of missing values, invalid values, outliers and transformation. These activities may either be interconnected or be a series of independent steps.

Data restoration

The data from the data source should be copied and restored in the auditor's computer for further analysis. While using data in dump/ backup format, it will be necessary to bring the data tables to its original format through a data restoration process.

Database restoration requires adequate technical knowledge of the database, as steps that need to be followed while restoring a database may vary according to the database

software. While it may be possible to restore a lower version backup /dump file in a higher version of database software, it could involve compatibility issues, which should be confirmed from the Database Administrator.

Identification of tables/fields of interest

In order to optimize computational speed and capacity, it is essential that only the relevant data variables are kept for analytical purposes.

Importing into the analytical tool

Most analytical tools have options to read flat files into the software or connect to a database and read tables. Some analytic software provided the option of importing only the relevant columns/tables and changing the data type before reading the file into the platform. The analytical tool itself offers various options to clean and enhance the data. Depending on the quality and quantity of data, the auditor may choose to do the data cleaning/enhancement within the analytic platform or outside, in a spreadsheet or RDBMS.

Data cleaning

Good quality data which is clean, complete and devoid of errors is essential for good analysis. Data cleansing, data cleaning, or data scrubbing is the process of detecting and correcting or removing corrupt or inaccurate records from a record set, table, or database. Data enhancement is also a data cleansing process where data is made more complete by adding related information. It involves activities such as harmonization of data and standardization of data.

Missing values and other data preparation steps

Missing values occur when no data value is available for the variable in a field in the dataset. This is a common occurrence, which reduces the representativeness of the dataset and can distort inferences and conclusions drawn from the data. Missing values can occur in random or with some pattern. Understanding the reasons for and the nature of missing values is important to appropriately handle the remaining data.

Other data preparation steps include deleting unwanted columns, formatting and renaming various columns and inserting additional columns.

Data integration: linking multiple databases

Data integration is the process whereby the data collected from various data sources or different tables within the same data source are combined to obtain the final dataset for analysis. Data from different sources can be integrated based on any common field such as Unique customer Id, Bill number or Village name etc.

While linking multiple data sets, it is not necessary to have a common field in the data sets, as data can be aggregated at a higher level to enable comparisons.

17.03. Data Analysis and Modeling

Data analytic approach

The data after due preparation is **analyzed** to derive insights using various analytic approaches. The following approaches can be used in data analytics:

- **Descriptive analytics**
- **Diagnostic analytics**
- **Predictive analytics**
- **Prescriptive analytics**

Data analytic techniques

Data analytic techniques are employed to leverage the above approaches. The analytical techniques that use descriptive and diagnostic approaches would help the auditor to understand the auditable entity and to identify issues therein. A predictive technique like regression will help understand the **behavior** of one (or more) variables based on the changes in the other set of variables.

These analytic techniques can be broadly classified as Statistical and Visual.

- **Statistical techniques** are the use of statistical measures to derive insights about the dataset.
- **Visualization techniques** are the use of visuals, graphs and charts to derive an understanding and insight into the data set.

The IA&AD Practitioner’s Guide for use of Data **Visualization** and **Info graphics** should be referred to for principles of data visualisation.

It should be noted that a single technique will not give a comprehensive understanding of the data set(s). An auditor should apply a combination of Statistical and Visual techniques to derive insights. The suitability of techniques depends upon the dataset and the purpose of the auditor.

Data analytic tools

Data analytics is a multistage process involving preparation, analysis and building of models, with different requirements at each stage. There are many powerful open source⁴ and proprietary software⁵ available for the purpose. No single tool can be termed comprehensive or suitable for all analytic or data extraction requirements. Some tools are useful in data preparation, while they may be found lacking in data **visualization**.

When adopting a new analytic tool, the HoD should consider the issues of sustainability of the tool in terms of financial and human resources. The scalability (vis-a-vis size and variety of data sets) of the tool also needs to be kept in mind apart from the availability of the tool in future.

Data analytic results

The results of data analytics can be in the form of Audit Insights and Audit evidence.

Audit Insights

The auditor applies various statistical and **visualization** methods to derive insights from the data. There are no laid down series of steps for deriving insights and it may involve backtracking and repeating of steps by way of iterations. The auditor should catalogue all insights that are thus derived. It must be kept in mind that while all statistical findings

⁴Knime(www.knime.org), R(www.rproject.org), Python(www.python.org), Weka, Rapidminer, SPAGO and some of the open source tools.

⁵ SAS, Tableau, MS Power BI17, Tidco , Spotfire, Informatica, IBMAalytics, SPSS, D3J, Qliketc. are some of the proprietary tools.

will describe some pattern(s), not all of them lead to new insights. The insights obtained from data analysis may confirm the previous understanding of the data/entity. The insights thrown up by data analysis should, therefore, be appreciated collectively.

Domain knowledge is essential for appreciating the results derived from the data analytic process. The findings⁶ generated using various analytic techniques should be catalogued and checked with the domain experts to understand their value and significance. These insights can then be used to identify the risk areas/ areas of interest for audit. A template for cataloguing and documenting the statistical findings and insights is provided at *Annexure-III*.

Audit evidence

The auditor applies professional **judgment** in evaluating the data analytic results for using them as audit evidence to support audit findings and conclusions. The data analytical results may have to be validated by other forms of evidence gathered through substantive checks. The data analytical results would qualify as audit evidence.

Data analytic models

Data Analytic model refers to the set of analytic tests leading to analytic results, which can be used repetitively by updating/ changing data. Building a model will ensure that risk analysis once done on specific dataset/s can be used repeatedly by using the same data set for subsequent years/ periods, once a mechanism for obtaining the data periodically is established.

To build a data analytic model, the following steps are followed:

- Data available from different sources are prepared for data analytics through restoration and cleaning of the dataset.
- After the preparation stage, the data is stored in the data repository.
- Insights are drawn by applying different analytic techniques on the data sets fetched from the data repository and/or data available after data preparation.
- The relevant insights are converted into data analytic models. The models may comprise of equations, queries, workflows or dashboards.
- Once a model has been prepared, it should be submitted to CDMA for review and approval.

Data models should be developed on centralized or de centralized data **sources**. A preliminary model will encompass various insights thrown up by data analytics and while the model was developed and further insights may be obtained when the model is deployed. The data model needs to be updated with these additional insights as well as with more reliable data sets that subsequently become **available**. An important feature of the model is its reusability. As the number of data sets increase, the complexity of data management for the model will increase.

Documentation of data analytic process

Documentation of the analytic process facilitates planning, performance, and supervision of the analytic project. Documentation for data analytics should follow the Auditing

⁶ The findings from analytics here are different from audit findings. The analytic findings are as discovered through analysis, which lead to insights. The insights are pursued in audit through substantive checks to confirm an audit finding.

Standards of IA&AD. All documentation should be signed by the auditor and countersigned by the supervising Sr. Audit Officer.

Documentation of the data analytic work should include the following aspects:

- Data identification
- Data collection
- Importing data into analytic software
- Analytic technique used
- Results of analysis
- Data Analytic Model
- Feedback from use in audit

Data repository

Evidence based approach to audit makes it imperative that various data sources are used to identify audit objectives. When risk analysis through data analytics become part of the audit process, it is necessary that data is available readily to the audit team. This can be achieved through a systematic data collection and management system in IA&AD, which will ultimately lead to creation of a Data Repository for IA&AD. Such a Data Repository is envisaged both at the central level and at each field office level.

Data Repository at field offices

Field audit offices are responsible for identification and collection of data falling within their domain. This will include internal data sources, data from audited entities and third party data, specific to their area of operation. A systematic way of managing multiple data sources would be for field offices to build a Data Repository at their end.

The following steps are to be followed for creation of Data Repository in each field audit office for managing data within their domain:

Data Identification – The first step in a data management system is identifying data sources available in the environment. All field offices should identify data sources available within their jurisdiction. Data identification is a continuous process. Other than the data from the audited entities, field offices should also try to identify third party data relevant to their domain. The data sets collected from various data sources should be brought into the Data Repository maintained in the field offices.

Data mapping – Once the data sources have been identified, the data should be mapped on a sect oral basis. Though data sources may be primarily designed for application in a particular sector, it can have utility in multiple sectors. A master data of utility of all data sources should be prepared in the following format.

Data Utility Master Table proforma

Name of data source	Sector to which it is related Primary Sector	Other sectors where it can be used
Mining MIS data	Mining	Commercial Tax, Transport
UDIASE data	Education	
Census data		Education, Health etc.

As the data collected is used in data analytics, the knowledge gained through it should be used to update the Data Utility Master table, thereby establishing linkages between various data sources.

Data preparation - Before storing the data sets in the repository, they should undergo data preparation stages to optimize the storage in data repository.

Data updation- Field offices should establish a mechanism for getting the data sets periodically. Once the relevant data sets required for data analytic models are identified, data collection in subsequent years would be required for these data sets, unless their structure undergoes modification at **data source**.

Data storage - While the relevant data sets extracted from various data dumps will go to the data repository, the data dumps collected should be systematically stored in external storage devices.

Metadata - Proper metadata of the data sources, tables etc. needs to be maintained by those managing the data repository. Format for the metadata in the form of three interlinked tables is given below:

List of data sources

Name of data set	Name of data source	Name of audited entity	Sector	From (date/ starting year)	Till (date/ latest year data available)	Number of Tables	Data Size	Tag/ Key Words ⁷

List of tables in data source

Name of data Source	Table Name	Description	Number of Columns in table	Number of rows

List of fields in each table

Name of Data Source	Table Name	Field Name	Field type (char, int, etc.)	Field description	Remarks

Once the data has been prepared and stored in the Data Repository, the data will be stored permanently for future reference. Data Analytic Groups in field offices will be primarily responsible for all the stages mentioned above in developing and maintaining the Data Repository.

Central Data Repository

CDMA will establish a data repository for data which has applicability across multiple IA&AD offices. CDMA will be collecting such data sets for use in IA&AD. The field offices will be able to access the data sets available in central data repository Selected data analytic models will also be hosted in the Central Data Repository.

⁷ Key words with which data sets can be identified or referenced while searchin.

Ensuring continuity and availability

Continuity of data analytic activities in an office should be ensured by adhering to the business continuity management principles enunciated in the Information Systems Security Handbook for Indian Audit & Accounts Department (December 2003). Availability of data and data analytic results/ models in an office should be ensured through adequate cataloguing and version control, apart from providing for adequate security.

17.04 Use of Data Analytics in Audit

Data analytic results can be used at any stage of audit⁸ be it planning, execution or reporting, to derive insights or evidence during the audit process. At the audit planning stage, identification of issues, unit planning and sample design can draw from the data analytic results. At the audit execution stage, data analytic results can identify exceptions, deviations or even describe an existing condition which can be used as audit evidence. At the audit reporting stage, data analytic results drawn at the execution stage can be presented for better appreciation of the audit findings.

The Auditing Standards also mandate that auditor shall evaluate the audit evidence and draw conclusions. Data analytic results should be used as audit evidence only when they comply with the requirements of the Auditing **Standards. The** specific audit processes where data analytic results can be employed while conducting performance, compliance and financial audits, have been **summarized** at **Annexure-IV**.

Acquiring data for analysis

The first step for employing data analytics in audits (Financial, Compliance, Performance audits) is to identify, collect and prepare relevant data for analysis. The auditor should identify all reliable data sets, - internal, external and third party, before finalizing the initial audit plan⁹ of individual departments/ entities/ sectors. These datasets from various sources are to be linked and **analyzed** which will result in utilities at various stages of audit.

Use of data analytics in audit planning

The offices in IA&AD adopt a risk based approach to audit planning. Data analytics lends support to the evidence based audit plan and aids in identification of high-risk entities in the audit universe as well as the risk areas with respect to the subject matter of audit. While it does not supplant the existing risk assessment practices in IA&AD, data analytics has the potential to strengthen them considerably. However, the extent of reliance to be placed on the results of data analytics is a matter of **Judgment** of the auditor.

Annual audit planning

In an office with sufficient data analytic capability, it is envisaged that a data repository of the relevant internal, external and third party datasets and the analytic models will feed into the risk analysis process. Data analytic results can generate a holistic

⁸ Performance Audit/ Compliance Audit/ Financial Audit

⁹ Financial Attest Auditing Guidelines, Compliance Auditing Guidelines and Performance Auditing Guidelines issued by the CAG may be referred to for selection of units and sampling approaches in respective audits

assessment of risks within the audit jurisdiction which should be **utilized** in preparation of the annual audit plan in addition to other risk assessment parameters. Data analytic models based on financial data (like Business Intelligence model on use of VLC data, PFMS, etc.) or other sector specific models will assist in this task and provide inputs to the process of annual audit planning.

Planning specific audits

Data analytics can be employed in risk analysis and identification of issues for specific audits, including setting of audit objectives, drawing an evidence based sample for carrying out substantive audit checks as well as for unit level planning of audits.

Identifying risk areas leading to setting audit objectives

It is necessary to understand the entity before starting an audit. In financial audit, too, it is important to identify business processes and systems at the start of the audit. Where transactions are recorded electronically, data analytics facilitates insights from multiple data sets and enables identification of underlying concern areas for any type of audit (performance, compliance, financial). This will help in setting the broad audit objectives, sub objectives and framing the audit design matrix.

Identifying sample units for substantive checks

Data analytics enables identification of risk areas within the audited entity, indicating data relationships, significant transactions and outliers thereby providing a more scientific and focused approach for selection of a sample of audit units for substantive checks. Arriving at a composite risk index for various audit units and ranking them on the basis of the weighted average scores of various risk parameters is an objective method of deciding the selection of a sample of audit units and determining the nature, extent and timing of substantive checks.

Unit level planning

Unit level planning refers to identification of the specific transactions for applying the substantive checks in the selected sample of audit units. Data analytic approaches will focus on identifying the deviations from the specific criteria within the sampled unit. Dynamic dashboards with drill down and filtering capabilities containing data analytic results may be developed for the peripatetic parties.

Use of data analytics in audit execution

During the audit execution phase, evidence is collected to substantiate the audit assertions identified during audit planning stage. Data analytics can be utilized during audit execution stages in the following ways:

- Peripatetic audit teams should be provided with dashboards/analytical results developed during audit planning stage. These dashboards will help in providing insights about the unit selected for audit apart from insights that led to the development of audit plan and audit unit selection. The dashboards may also contain the list of transactions, which led to the selection of audit samples. This will help the auditor to focus on the specific sample selection for the unit, if not done already at the audit planning stage.

- Peripatetic audit teams would be able to apply the knowledge of data analytics in the audits, when they access electronic data during audits. Thus, the audit teams can **utilize** drill down techniques to substantiate their audit assertions. They should also apply data analytics to the subordinate data sets obtained during the audit process (if electronically available) which do not necessarily form part of the corporate or **organization** level data.

Use of data analytics in audit reporting

The audit process involves preparing a report to communicate the results of audit to stakeholders, which should comply with the reporting requirements envisaged in the Auditing Standards.

A schematic representation of the salient uses of data analytics in audit planning, execution and reporting is given below.

Audit Planning:-

1. Risk Analysis and issue
2. identification Leads for setting
3. Audit Objectives
4. Sample of auditable units for substantive checks
5. Unit level Audit Planning

Audit Execution:-

1. Dashboards for Audit team
2. Risk assessment by peripatetic Audit team
3. Identification of exceptions Drill down

Audit Reporting: - As per Auditing Standards

Annexure-I

(Referred to in Paragraph 17.01)

Roles and responsibilities for data analytic work Roles and responsibilities of CDMA

CDMA will play an advisory and supporting role for the overall use of data analytics in IA&AD. CDMA will facilitate through capacity building, collecting third party data at the central level, identifying new software, assessing applicability of different analytic techniques/analytic models, and disseminating them in IA&AD. CDMA will provide technical support to the field offices in their data analytic efforts wherever necessary.

The Data Analytic models will be vetted and approved by CDMA, in consultation with functional wings in headquarters.

Roles and responsibilities in the field offices

The data analytic project is the responsibility of the functional group within the field office. The data analytic group will offer necessary technical assistance to the project.

Data Analytic Activity	Data Analytic group	Functional groups in the field office
1. Data identification		Primary Responsibility
2. Data Collection	Technical assistance in data collection process	Primary responsibility
3. Data Restoration	Primary Responsibility	
4. Data preparation	Primary Responsibility	To provide domain expertise in preparation
5. Data Analysis and Creation of model	Technical Assistance	Primary Responsibility
6. Model Deployment	Primary Responsibility	
7. Periodic collection of data for model	Technical Assistance	Primary responsibility
8. Data Repository and Management	Primary Responsibility	
9. Documentation	To provide documentation on areas above where Data Analytic Group are having primary responsibility. To compile the documentation.	To provide documentation on areas above where Functional groups are having primary responsibility.
10. Infrastructure for Data Analytics	Identifying the technical requirements	Administration wing will have the primary responsibility.

Annexure-II
(Referred to in paragraph 17.02)

Indicative Template of Certificate for completeness, consistency and integrity of data

(To be collected from audited entity while receiving data)

The data dump provided to the O/o _____
_____ (name of audit
office) in respect of _____ (name of database)
for the period
_____ to _____ maintained by
Ministry/Department/
_____ (Name of entity providing data) on an
external storage device/provided online duly marked as <XXXXXX> (in case of external
device) and signed/authorised by <XXXXXX> (name and designation of nodal officer
providing the data) on <date>.

It is certified that:-

- (i) Officials are authorized by the_(name of audited entity) for sharing this data with audit and they understand relevant provision of the Information Technology Act 2008.
- (ii) The data dump is full, complete and whole of actual data.
- (iii) There is no erasure, tampering or overwriting of original data.
- (iv) There is no data inconsistency and there was no loss of data during data migration from one system to another or backup or due to theft/hacking etc.
- (v) There is no damage of data i.e. by destruction, alteration, modification, deletion or re-arrangement of any computer resources by any means.

Summary information on key parameters – total number of transactions, date and details of first and last transactions and hash totals of various numeric data fields is also provided to ensure the completeness, consistency and integrity of data.

(Name, designation, e-mail & signatures of authorised officials)

Date:

Place:

Annexure-III

(Referred to in paragraph 17.03)

Deriving insights from data analytic results

Statistical analysis has been carried out on data regarding current tax demand and current tax collection for all zones. Correlation of demand and collection data has been worked out for each zone. The template for cataloguing and documenting statistical findings (correlation analysis) and arriving at insights from it is shown below.

Reference Figure/Table: (The <u>visualization</u> image or the table showing Statistical results)	Statistical Finding (Statistical results)	Insights generated (Interpretation of the Statistical Finding)	Focus areas for Audit	Whether the insight to be included in a model, if any?
Table showing zone wise Correlation between Current demand and Current collection	The figures of 0.533, 0.421, in zones xx, and yy, shows very poor correlation between current demand and current Collection.	The collection of tax against current demand is not satisfactory.	Reasons for such poor collection against current demand should be explored.	

Annexure-IV

(Referred to in paragraph 17.04)

Data analytics in various types of Audits

A. Performance Audit

As per chapter 4 of the Performance Audit Guidelines 2014, Planning individual Performance Audits, understanding the entity/ programme is the starting point of any individual Performance audit, which includes review of information in various forms and sources such as electronic databases, management information systems, MIS reports, information from website, etc. The chapter also envisages designing audit approach and methods, use of various analytical techniques, preparing an audit design matrix and deciding the data collection and analysis methods, which includes data analytics. The following steps mention the general methodology to be followed for using Data Analytics in Performance Audits.

- All reliable data sets should be identified at the planning stage for a Performance Audit. The basic information on format, size, mode of access, on the data sets should be collected from the audited entity. Data should be prepared as per need in accordance with the process prescribed for data preparation in guidelines.
- Data Analytics may start on primary database/s of the audited entities. This can be the MIS database, transaction database of auditable entity. Analytics should start with data exploration using various visual and descriptive statistical techniques to classify data, understand geographic/administrative variations, variations over time (trend analysis) etc. Use of GIS maps will help to understand the spatial distribution of various parameters. For example, if it is a Performance Audit on health sector, analysis could be carried out to see
 - Whether health indicators are available
 - Whether health infrastructure analysis are being reported across various states/districts.
 - Variation in health indicators across various regions and over the years
 - With this analysis, the auditor can have an understanding as to the nature of the entity/scheme and can identify focus areas of interest.
- Performance Audit primarily seeks to verify whether the scheme/programme is successful in meeting the desired outcomes or is being implemented efficiently. The auditor needs to identify the various government interventions and then see how it is affecting the outcomes. Hence, the next step would be to understand the relation between the outcomes/outputs and the various input factors /interventions of the government. This can be achieved by slicing and dicing of data and using analytic techniques like Scatter Plots, Correlation, regression etc. For example if it is a review on education, analysis can be carried out to identify factor(s), which improve outcomes such as enrolment, drop outs etc.
- At this stage, multiple data sources and data sets can be explored, which can be

linked to the primary dataset. For measuring the outcomes, auditor need not rely only on the figures provided by the audited entity. Reliable third party data sets can be used. An increasing number of subject matters have readily accessible datasets (secondary data sets) that allow auditors to critically **analyze** relevant issues and address some of the compelling questions.

- With these preceding steps, auditor can understand the risks/interest areas in the organization that would have to be addressed in audit. The analysis of the various data sets not only provide a holistic perspective but also provides an evidence based approach for defining the audit objectives / sub –objectives. At the same time, auditor should be aware that there might be risk parameters, which have not been captured by the existing data sets. Hence, previous understanding of the entity/information from pilot studies etc. should be used to strengthen the evidence based approach.
- Once the audit objectives are defined, next step will be to identify sample units for substantive checks based on the risk perception. Since multiple risk indicators will be identified through data analytics, composite score based on weighted average of various risk parameters can be made and sampling can be done on this score. A weighted risk score can also be assigned for factors which have not been identified through data analytics and incorporated into the composite score.
- Peripatetic teams can now take up unit level planning with the help of the dashboards provided to them. With dynamic drill down and filtering capacity available in modern data analytical tools, the audit teams can identify risks pertinent to each sample unit and can plan audit within the sub unit.
- At the reporting stage, the quality of presenting the audit findings to stakeholders can be improved through various visualization techniques.

B. Compliance Audit

As per para 2.25 of Compliance Auditing Guidelines, Risk profiling of Auditable entities needs to be done to identify the high-risk areas/ activities of the organisation. The guidelines mentions taking advantage of Big Data and utilizing various data sources like socio-economic surveys, Budget/VLC and other data sources to identify the risk areas. Similarly, as per chapter 4 of the Compliance Auditing Guidelines, planning of individual Compliance Audit unit needs to be done.

In compliance audits, the primary question facing auditor is to identify cases where compliance to a law/rule has not been observed. From audit planning perspective, identification of units for substantive check where such non-compliance is likely to be observed will be crucial. Data Analytical Models can assist in this task and systematically arrive at cases of such non-compliance.

Data analytics on the relevant data sets using various techniques will help to identify and rank/sort all units on various parameters. These risk elements will vary from sector to sector. The approach will be to identify multiple risk indicators pertaining to the sector. Some examples of risk parameters are:

- Expenditure

- Unusual variation in expenditure over previous years.
- Delay (in case of operations)
- Low tax to income/sales ratio in case of receipt audit

Once the risk parameters have been identified, risk scores can be assigned to each of audit units of the entity for each parameter. Composite scores based on weighted average of multiple parameters can be calculated and the sample units for substantive check can be selected based on this score. The next level of sampling will be of transactions to be selected in each of these units for substantive check. Such high-risk transactions can be identified by:

- Incorporating the rule position whose compliance is being sought through queries/dashboards such that exceptions/non-compliance cases can be identified.
- **Visualization** techniques like Scatter Plots, Box Plots etc. to identify patterns, clusters or outliers.

With drill down and filtering capability available in most of the data analytic tools, a dashboard can be built for all units selected for substantive check. By ensuring periodic availability of data, the analysis can be repeated over the years leading to a Data Analytic Model. The analysis done for a Performance Audit can also be converted into a base model for Compliance Audits in the sector through suitable modifications.

C. Financial Audit

The purpose of an audit of financial statements is to enhance the degree of confidence of intended users in the financial statements. This is achieved through the expression of an opinion by the auditor as to whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework, or – in the case of financial statements prepared in accordance with a fair presentation financial reporting framework – whether the financial statements are presented fairly, in all material respects, or give a true and fair view, in accordance with that framework.

In the audit of financial statements of an organisation or of the Union Government/State Governments, use of descriptive analytics and visualisation can assist the auditor in understanding and gaining insights into the various classes of transactions, account balances, specific grants or disclosures that potentially indicate an unexplained variation or abnormality. Samples for substantive checking can be drawn based on the insights drawn from data analytics.

The routine checks performed by the financial auditors can be automated and built into a model, which can be updated with data pertaining to subsequent years. The trend of financial transactions over years would assist in identifying any abnormal behaviour or pattern. **Dashboards** so prepared will assist the auditor in carrying out field audits. (CAG's Guidelines on Data Analytics)

CHAPTER- XVIII

INFORMATION TECHNOLOGY AUDIT (IT AUDIT)

18.01. As a number of Government Departments, Public Sector Enterprise and Autonomous Bodies have computerised various areas of their operations, it has become imperative for audit to change the methodology and technique of conducting audit. The provisions in Paras 3.22.1 to 3.22.76 of the MSO (Audit) Second Edition, 2002 may please be referred to.

18.02 Audit Concerns Associated with the use of IT Systems

As IT is increasingly being used by the auditee organisations to automate their operations, the auditor needs to assess the risks associated with the use of these systems and their vulnerability to these risks. Some of the risks involved in the use of Information Technology Systems include:

- (a) Reduced accountability due to anonymity of users.
- (b) Possibility of unauthorised and unrecorded amendment to data
- (c) Absence of a visible audit trail.
- (d) Possibility of duplication / non-inclusion of data
- (e) Distributed data storage and processing
- (f) System failure/ shutdown
- (g) Outsourcing of IT services

18.03. Aspects of Audit Planning

(1) Technical Planning

We have to carry out a General Review of the IT system (GRIT) of the auditee to obtain an overview of the

- Auditee, nature of their business including their IT strategy and policies and management and control strategy
- The size, type and complexity of the computerised financial system used by the auditee and its relation with the supporting subsystems
- Major IT systems in terms of value of the system themselves and their contribution to the achievement of the corporate objectives of the auditee.

(2) Logistical Planning: This involves

- (a) Resource Planning (man power, hardware, audit software tools and budget)
- (b) Allocation of responsibility to the IT audit team.
- (c) Planning the methodology of audit, viz. system based audit or direct substantive testing.
- (d) Drawing up a time schedule for various tasks on the basis of complexity of the auditee's system and their business criticality
- (e) Exploring ways of obtaining audit evidence and framing the reporting requirements.

18.04. Controls

In the context of IT systems, there are two types of controls -- General Controls and Application Controls.

18.05 General Controls

- (a) Organisation and Management Control
- (b) Separation of Duties
- (c) Physical and Logical Access Controls
- (d) System Development Controls
- (e) Program Amendment Controls
- (f) Business Continuity Control

(a) Organisation and Management Control

This control enables the auditor to derive assurance that there is an appropriate framework for ensuring the effective management of IT system and that Management is involved in IT system.

Audit Checks

- Ensure whether there is a formal IT strategy and detailed tactical plans and see if they are in line with the stated business objectives.
- Identify major IT units.
- Examine if there is a sufficiently empowered IT strategy committee actually involved in the management of IT.
- Verify if policies, standards, procedures and methodologies have been approved for controlling IT.
- Examine if management takes into consideration the total costs.

(b).Separation of duties

Separation of duties within the IT department is an essential requirement of effective management of IT system as it would reduce the risk of fraud and error.

Audit Checks

- Examine organisational chart to determine adequacy of separation of duties.
- Review job description to determine that the segregation is maintained.
- Review back-up arrangement to ensure that separation is maintained.

(c).Physical and Logical Access Control

Physical access controls aim at safeguarding the computer equipment from unauthorised access, theft and damages due to accidents, deliberate action, etc.

Logical access controls such as password aim at protecting the data files from unauthorised access.

Audit Checks

- Verify whether there is a formal IT security policy and a security program for the organisation.
- Verify if users are aware of all security procedures and associated disciplinary action and if security drills are conducted regularly.
- Check whether there are appropriate physical access restriction for the computer room and even for supporting staff such as cleaning, security and maintenance staff.

(d).System Development Controls

These controls ensure that there is an adequate framework for successful and cost effective development and implementation of IT system in tune with corporate objective and the requirements of the users.

Audit Checks

- Check if a formal methodology has been accepted for design and development of IT system.
- Check if a formal project management framework has been put in place and whether a project management methodology has been adopted to minimise the risks and delays.
- Check the level of involvement of users in the design and implementation of system.
- Verify if an adequate audit trail has been built into the system.
- Verify adequacy of specific controls at each stage of the system development life cycle.

(e) Program Amendment Controls

These controls ensure that all the modifications to the existing systems are authorised, properly tested, documented and operated as planned.

Audit Checks

- Verify if there are formal procedures for management authorisation of amendments through testing before live implementation, management review of the resulting changes and adequate documentation of the amendments.
- Verify if amendment schedules have been specified to allow time for adequate installation and testing of the new hardware and software.
- Verify if before implementing the amendments, various manuals have been modified suitably.
- Ascertain if the time schedule for effecting the amendments have been adhered to.
- Evaluate if the testing change procedures interfere with normal operations.
- Check whether the auditee has any back out plan.

(f) Business Continuity Planning or Backup and Recovery Control

This covers planning and implementation of countermeasures against natural and manual threats like fire, flood, power cuts, physical damage and theft. We need to ensure that a disaster discovery plan for IT facilities exist as a part of business continuity plan of the organisation and auditee can produce reliable data in a reasonable time following the **breakdown** of the IT system.

Audit Checks

- Check if the procedures for back up are adhered to in practice and the back-up data stored off sites are in a secure place.
- Verify if the back-up procedures are adequate to ensure that programs and data can be reconstituted early, examine if data recovery arrangements are documented and tested regularly.
- Check if there is a formal disaster recovery plan -- review the stand by arrangements for processing as also for recovery of the main system.

18.06 Application Controls.

(a) Input Controls

These controls ensure that the data being keyed into the computer is authorised, accurate, unique (no duplication), complete and recorded.

Audit Checks

- Identify the main inputs to the application.
- Check if there are procedures for authorisation of input data, conduct a test check of authorisation.
- Verify the adequacy of checks (manual and computerised) for validation of data.
- Verify the adequacy of procedures for ensuring uniqueness of completeness of data.
- Verify the procedure for handling incorrect data and the re-input (after correction) to the system.

(b) Processing Control

These controls ensure that the processing transaction is accurate, complete, unique, valid and auditable.

Audit Checks

- Check the controls for validation of completeness and accuracy of data at each stage of processing.
- Check procedure for error handling at each stage of processing.
- Check if there are procedures for verifying periodically the integrity of data tables.

(c) Output Controls

These ensure that what comes out of the computer is complete, accurate and has been distributed as planned.

Audit Checks

- Check the controls for ensuring accuracy and adequacy of outputs i.e.Overall reconciliation of output back to inputs.
- Check if there are controls to ensure that outputs are safeguarded adequately before distribution; and that these reach proper destination.
- Check for controls on issue, reconciliation and verification of financial stationery (i.e. Cheques) and controls on stationery printed, distributed and cancelled.

(d) End User Computing Controls

With the growing trend towards end user computing it is necessary that there is adequate control over the data processing by users on their desktops. Here the auditor needs to see, if the users are provided with adequate, good practice guidance on security, virus protection and the maintenance of adequate **backups**.

Audit Checks

- Check if access to computers is restricted and controlled adequately i.e. through locking of computers.
- Check if sensitive information is protected adequately through encryption, password etc.
- Check if there are methods for backing up data and if these are adhered to in practice.
- Check if CD/DVD disks are stored securely.
- Check control for prevention of entry of viruses, verify if computers are scanned periodically for viruses.
- Check the adequacy of support services of maintenance and repair.

18.07. Audit of Procurement of IT System

The importance of audit of IT systems arises due to the following reasons:

- (i) IT systems involve large investment and require audit attention.
- (ii) Procurement is a vital part of system development.
- (iii) Procurement of IT systems involve consideration of several technical parameters and it has to be ensured that technical and financial considerations have been balanced.
- (iv) Since modifications are very expensive it is essential that in procurement of IT system, the government organisations follow general rules and procedures set out for procurement of major items. The specific additional points to be noticed in procurement are as follows:
 - (a) Has the need for IT system been identified clearly and justified?
 - (b) Have the procurement proposals been approved by **competent authority**?
 - (c) Does the statement of operational requirement specify clearly the IT strategy of the organisation, their future plans and what is expected of the IT system?
 - (d) Have the user requirements specification been met fully?
 - (e) Has due and adequate publicity been given to the invitation to tender for the system?
 - (f) In the case of high value contracts, whether prequalification of the tenderers was done to shortlist technically competent contractors for invitation to bid?
 - (g) Whether a two packet system of tendering (one sealed packet containing technical bid and another containing general bid) is adopted?
 - (h) The composition of tender committee and time taken to finalise the tenders.
 - (i) Whether technical bids of two tenderers are evaluated on par and both are technically acceptable. Whether the contract has been awarded to the lower bidder?
 - (j) Whether legal advice has been taken before signing the contract?
 - (k) Where negotiations are held whether all the tenderers were given equal opportunity?

18.08. Performance Audit of IT Systems

Performance audit is concerned with assessing whether the auditee organisation is getting the best value for the money/ resources it invested in a particular project in terms of economy, efficiency and effectiveness.

In the context of IT systems, it involves

- (a) Setting up and maintenance of IT systems involving huge investment and sophisticated technology.
- (b) IT systems handle, strategy and critical information vital to the achievement of basic business objectives of the organisation.

Performance audit of IT systems involve three stages, viz. survey, identifying evidence for poor performance and exploring reasons for poor performance.

Survey:

A performance audit survey considers the following aspects:

- Materiality -- The subject should be significant in terms of cost.
- Topicality -- The subject should be of topical interest.
- Evidence -- There should be sufficient, reliable and relevant evidence to establish that there is a problem to be investigated.
- Results -- There should be scope for achieving improvement through audit observations.

In order to identify topics that meet these criteria it is necessary to know the corporate objectives, organisations and resources.

The indicators for poor performance are as follows:

- User dissatisfaction -- If there is widespread user dissatisfaction, it indicates failure in involving users in the specification or acceptance of the system apart from inadequate training.
- Unreliable systems -- Log may be reviewed to check the number of times the system failed.
- Poor integration -- This refers to failure in integrating IT system with other information systems which may result in having to feed the information more than once or collate information manually.
- Cost overrun -- Verify the budget records and check for variations.
- Time overrun -- Verify minutes of project, board meetings, and strategies covering the proposal, design, procurement and development of the system. If time schedules were fixed verify reason for delay.
- Abandoned projects -- In respect of abandoned projects reasons for the same may be verified.
- Running Costs -- High running costs, indicate high degree of maintenance, poor system design standards and inadequate user involvement in the development of the system apart from weakness in operational management.

- Dispute with suppliers -- Examine the correspondence between the auditee and the suppliers and minutes of the meeting held with the suppliers. Check if the maintenance agreement specifies the nature of services to be provided and the quality of services.

Some of the main reasons which could explain the failure of IT system are given below :

- (a) The auditee institution does not have a sound IT strategy which is linked to its corporate / business strategy.
- (b) Verify whether the organisation has not formulated and documented standards for project design and development.
- (c) User acceptance and training are crucial to the efficient use of the system. If the users are not involved in the development of the system and if the system is imposed on them, it is likely to lead to user dissatisfaction and failure of the system.
- (d) Procurement should be done within a framework of procedure which would include competitive tendering, setting out user requirement, proposal evaluation criteria, schedule of deliveries service level agreements, agreements on ownership and copyright, etc.
- (e) Absence of a good project management may lead to poor performance of IT system.
- (f) Poor operation management will result in high running costs and poor reliability.
- (g) Business continuity plans should identify the activities which are critical to the auditee's business and provide for their continuation when the services that support them are disrupted.

18.09. Computer Aided Audit Techniques (CAATS)

Auditor can use Computer Aided Audit Techniques (CAATS) to obtain sufficient evidence to support his conclusions on the effectiveness of the controls. CAATS include a wide range of tools to automate the testing process. These can be used if there is a large volume of computerised data to work and they enable the auditor to have a greater level of assistance than a manual test can provide.

CAATS can be used to test either system or data.

- **System testing** includes program review and code comparison (comparison of source code version of the program against a master copy).
- **Testing of data** includes file interrogation, and embedded audit code. File interrogation helps to read the auditee data files and carry out various analytical test.
- **Embedded audit code** implies insertion of auditor's own program in the site of program of the auditee to examine the transactions passing through the system.
- **Downloading of data** refers to transfer of data from auditee's computer to auditor's computer in a suitable format for the auditor to analyse using CAATS.

Interactive Data Extraction and Analysis (IDEA). IDEA is commonly used software for audit purpose.

On receipt of data from the auditee the auditor needs to import / link the data file into IDEA in his computer and conduct verification. IDEA enables the following analytical functions:

- Indexing
- Field stratification
- Key Field Summarisation
- Field statistics
- Aging
- Creation of virtual fields
- Duplicate key detection
- Gap detection
- Exception reporting
- Extraction of records satisfying specified criteria
- Sampling

18.10 TABLEAU

Tableau is a powerful Data Visualization Tool which is often called as Data Analytics or Business Intelligence (BI) Tool. Uses of Tableau contain a different set of processes such as visualization, exploration, and analysis of data and have different uses.

- a) The data from different data sources can easily be analyzed and report can be generated which can be easily understood at first sight.
- b) The visual dashboards in Tableau can give different kinds of representations such as Pictorial representations, Pie Charts, Bar Graphs, tabular or Graphical representations.
- c) The different data sources can be from multiple types of databases like Oracle, MySQL, IBM DB2, MS SQL, MongoDB, Cassandra, Virtual databases etc.
- d) The Tableau tool has extensive applications in the area of Data Analytics and Data Visualization which provides greater benefits like Data handling and reducing data redundancy in the shortest execution time dynamically.
- e) Data quality and data validation techniques that quickly identify invalid or inaccurate information in end-user databases.
- f).Techniques to organize, summarize, and visually represent audit and compliance issues in a simple yet elegant way. These techniques apply regardless of the issue type, and are therefore relevant to Internal Audit, Compliance, IT Risk, Information Security.

18.11 IT Fraud

Nature of IT fraud

1. IT fraud could involve the manipulation of a computer or computer data by whatever method in order to dishonestly obtain money, property or some other advantage of value or to cause loss.

2. Computers provide opportunities for their misuse for economic or financial gains. Computer networks can be used to commit crimes from geographically far off places. Frauds committed using computers vary from complex financial frauds to the simpler frauds where computer is only a tool to commit a crime. With some State Governments, Union Government Departments and public sector organisations going for e-commerce / e-payment systems in a large way, possibility of electronic fraud requires attention.

3 IT frauds are committed by insiders, outsiders, vendors, competitors, etc. Such frauds are committed by manipulation of input, output or throughput of a computer system. Fraud can also be committed by hacking into the system for causing deliberate damage.

Role of Audit in relation to IT fraud

4 Since many records are produced by computers in the usual and ordinary course of work, auditors should understand how to collect and handle those records as audit evidence. Collecting computer evidence requires careful planning and execution. Auditors should examine whether appropriate controls are in place in order to ensure the authenticity of computer evidence.

5 The steps in prevention of frauds in computerized systems involve setting up of proper access controls both physical and logical. Physical access controls ensure against unauthorized access to computerized system and logical access controls prevent unauthorized access to data and software for its use and manipulation.

6 For auditors, the most effective tool is data enquiry, analysis and reporting software. Powerful interactive software like ACL and IDEA can quickly sift through voluminous electronic data and assist in the detection and prevention of fraud in an organisation. They can be used to process normal data as well as exception reports and audit trails, but demand flexibility and creativity on the part of the auditor. The auditor should have capability to revise and upgrade queries based on the findings from previous queries. Besides having auditing skills, it is important that auditors have intimate knowledge of computerized system to understand the possible modes of fraud so that they can isolate all types of risks to the organisation.

7 Increasing use of IT systems by auditees requires that the auditor should have access to reliable and verifiable system-based audit trails to evaluate the internal control. The Auditor has to be particularly aware of the audit trail, of the checks and balances of IT systems, of the levels of control and needs to also have a fair idea of how processing controls can be circumvented by the perpetrator of fraud and how data can be accessed and manipulated. It is particularly important for the auditor of IT system to assess in his audit the level of security controls built in and if these are in tune with the sensitivity of data.

8 In case of fraud involving use of computer systems, the audit personnel should also comply with the instructions on Information Technology Audit (IT Audit) issued by the IT Audit Wing of Headquarters Office and the Comptroller and Auditor General's Manual of Standing Orders (Audit).

18.12 Documentation

1. The auditors should collect adequate documentation which may provide evidence during subsequent enquiries, investigations, court cases, etc.
- 2 The documentation should include inter alia:
 - (a) The identified and assessed risks of fraud, the overall response of the auditor to the assessed risk of fraud and the nature, timing and extent of audit procedures, and the linkage of those procedures with the assessed risk of fraud; (b) The results of the audit procedures, including those designed to address the risk of management override of controls; (c) communications about fraud made to management, etc.
- 3 The documentation should also be capable of proving that the Audit personnel have discharged their functions with reasonable care and due diligence and should enable a review of working procedures and working papers.
- 4 Supervision and review of the work of audit personnel shall be exercised in accordance with the Auditing Standards of the Comptroller and Auditor General of India and instructions issued from time to time.

18.13 Reporting

Initial reporting

- 1 Reports of individual cases of suspected/presumptive fraud/corruption should be addressed confidentially, in the first instance, to the controlling authority concerned with the approval of Group Officers. Copies may simultaneously be sent confidentially to higher authority in cases that are regarded to be so grave or serious. In the case of Controlling Officer based audits, the report should be sent confidentially to the concerned Controlling Officer (with a copy to the Chief Controlling Officer concerned) whereas in the case of Drawing and Disbursing Officer based audits, the report should be sent confidentially to the concerned Drawing and Disbursing Officer (with a copy to the Controlling Officer concerned).
- 2 The situations / events that may be suggestive of fraud / presumptive fraud should be highlighted in the inspection reports with a recommendation to the executive for detailed investigation and response.
- 3 The report of the audit party should indicate inter alia the scope of audit, main findings, total amount involved, modus operandi of the suspected fraud or the irregularity, accountability for the same and recommendations for improvement of internal control system, fraud prevention and detection measures (including changes in the systems and procedures) to safeguard against recurrence of fraud/ serious financial irregularity.
- 4 In addition to reporting to the management of the audited entity, material/significant cases of fraud and corruption may be reported through separate confidential letters to the specified investigating agency like Central Bureau of Investigation (CBI), Central Vigilance Commission (CVC) in case of Union Government and State Vigilance Commission/Lok Ayukta, etc. in case of State Government with the approval of the

Accountant General or by him/her, depending upon the seriousness of the cases. In this connection, the provisions of paragraphs 16.8 to 16.11 (infra) may also be seen.

Qualification in Audit Opinion on financial statements

- 5 In case of financial audit, instances of possible fraud and corruption may require making qualification in the Audit Opinion on financial statements, depending upon the materiality of the audit findings. In other cases, they may be reported to entity management in a special letter or in the regular inspection reports, depending upon the circumstances.
- 6 When in the opinion of the auditor the financial statements include material. fraudulent transactions, or such transactions have not been adequately disclosed, or the audit conducted by the auditor leads him to the inference that instance(s) of fraud and/or corruption have taken place and when the auditor has adequate evidence to support his conclusion, he should qualify the audit certificate/opinion and/or ensure that his findings are adequately included in his audit report. However, the term fraud or corruption may not be used in a conclusive sense unless such action is established in a court of law. 1 Printing cases relating to fraud and corruption

- 7 Cases relating to suspected/presumptive fraud and corruption should be highlighted in the Inspection Reports, Audit Notes, etc. and also in the Audit Reports. All such cases should be printed in bold type.

Reporting to investigating agencies

- 8 Accountants General, Principal Directors of Audit, etc. should carry out a quarterly review of the audit findings contained in the inspection reports, audit notes, etc. relating to different wings of their offices and bring specific material/significant cases of suspected fraud or corruption.
- 9 While forwarding the Bond Copy of the Audit Reports to Headquarters, the Accountant General, Principal Directors of Audit, etc. should highlight in the forwarding letter the number of cases of suspected fraud and corruption together with money value of the concerned paras included in the bond copy. All such cases should be taken up immediately after approval of the bond copy with the appropriate vigilance or investigative authorities by the Accountant General, even if these cases were reported to them earlier. Such cases should be forwarded to the vigilance or investigative authorities such as the Central Bureau of Investigation, Central and State Vigilance Commissions, Lok Ayukta, etc. through confidential letters, drawing reference to earlier correspondence, if any, and with additional information that these cases have been included in the CAG's Audit Report to Parliament / State Legislature.

While forwarding such cases, the Accountant General/Principal Director should also send a brief write-up of such cases with details of the names of individuals, firms, address, etc., and any other necessary information available in field offices which are not mentioned in the Audit Report as per our reporting policy. It should be clearly stated in the communications that in view of the intent of Audit to bring the matter to the

notice of Parliament / Legislature, strict confidentiality should be maintained about the matter to avoid any likely breach of privilege of Parliament / Legislature.

- 10 The communications to vigilance or investigative authorities should clearly indicate that the audit evidence is obtained from the original documents of the audited entity. They should also indicate that the audit findings are based on the test check carried out and the information and records received from the audited entity. The investigative agency should use information given by us as a lead and make their own examination of the primary/original records which are available with the audited entity/Department.
- 11 The reporting to the vigilance or investigative authorities may be completed after approval of the bond copy, without waiting for the availability of printed audit reports. While, for the Audit Reports relating to State Governments and Union Territories, the concerned Accountant General will be the Nodal Officer, for the Audit Reports relating to Union Government, the reports may be sent by the respective report controlling wings under orders of the ADAI/DAI concerned.
- 12 In the submission note to CAG, of the bond copy, the number of cases of fraud and corruption included in the Draft Report should be mentioned together with the money value of concerned paras.

Post-Audit Report letter to the Chief Minister

- 13 The draft of the annual post-Audit Report letter to the Chief Ministers should contain a brief mention of issues relating to fraud and corruption where such cases appear in the Audit Reports. The field Accountants General should put in place a system of monitoring paras relating to fraud / corruption and a brief mention of this should be made in the annual post-audit letters to Chief Ministers. Such letters should be submitted immediately after reports are laid in the State Legislatures.

Follow-Up

- 1 The field offices shall institute mechanism for recording the cases of fraud and corruption (including possible indicators of fraud and corruption) noticed during the, course of audit in separate registers maintained for the purpose. Such cases should be: - follow up vigorously with the concerned audited entity and with higher executive authorities and should not be settled in a routine manner. All significant cases should be followed up with the Secretary of the Administrative Department concerned.
- 2 In following up on reported cases of fraud and corruption the auditor should determine whether the necessary action is being taken with due regard to urgency that the situation demands and become aware of the changes in the systems and procedures which could be validated through subsequent audits.
- 3 The Accountant General may send annual confidential letters to the Secretaries of the concerned Administrative Departments (in cases where the inspection reports, audit notes, etc. throw a pattern of fraud across the Department) indicating the details of the important cases of suspected fraud and corruption.

- 4 It should be noted that once a matter has been referred to the investigative or vigilance agencies, the responsibility and scope of audit is to provide the information and assistance sought by them in accordance with the extant instructions. The matter may, however, be followed up through discussions in formal meetings with the investigative or vigilance agencies.

Additional Instructions

- 1 Memorandum / Certificate of Assurance to be obtained from the Audit Party: The PAG/AG may require the Audit Party to provide a Memorandum / Certificate of Assurance, which should include, inter alia, examination of issues relating to fraud and corruption and compliance with the provisions of this Standing Order and other applicable instructions by the Accountant General supported by detailed documentation.
- 2 Database: Each field office should establish a database of fraud or corruption related audit issues for building a linkage across functional groups to identify red flag items. Change in mode of audit investigation is required to bring out system deficiencies in greater detail rather than mentioning only money Value. Red flagged items should bring out the intention and failure of internal control irrespective of money value. The data base should be transparently reviewed by the PAG/AG every quarter for further strategy and directions to the field audit parties.
- 3 Objection Book: Cases of fraud or corruption etc. should also be recorded along with cases of misappropriation, defalcation, etc. in an Objection Book in accordance with the instructions contained in the Comptroller and Auditor General's Manual of Standing Orders (Audit) as amended from time to time.
- 4 **Skill Development**: The field offices should have an adequate inventory of skills to deal with cases of fraud and corruption and, for this purpose, arrange for training of their officials at a Regional Training Centres/Institutes.
- 5 Developing sector specific guidelines/checklists: The PAG/AG should develop sector specific guidelines/checklists to deal with cases of fraud and corruption in the audit of entities belonging to specific sectors, for the guidance of the field staff deployed in such audits and furnish a copy of such guidelines/checklists to DG (Audit).
6. Reporting to Headquarters: The field offices should send half yearly reports on cases of suspected material fraud and corruption noticed by them to the Headquarters Office.
- 7 In view of the ongoing rationalization process of Management Information System (MIS), the half yearly reports may be sent electronically or placed on local Intranet in such manner as may be prescribed upon completion of the rationalization of MIS.
Continuance of the existing provisions relating to reports on defalcations and losses
- 8 The existing provisions in the Manual of Standing Orders (Audit) relating to reports on defalcation or loss of public money or property and action to be taken thereon shall continue to be in force.

(CAG's Letter No. 126/Audit (AP)/1-2004 dated 06.09.2006).

CHAPTER-XIX

STATISTICAL SAMPLING

19.01. Many jobs in audit department require answers to questions relating to a given population. To what extent the accounts compiled from initial vouchers give a true and fair picture of the finances of the Government? What are the major persistent irregularities in a particular department and what is the probability of its occurrence based on past observations? Answers to such questions are easy if the population size is small as all elements of the population can be studied for the given attribute. However, we have never carried out nor is it possible to conduct a cent per cent check of all elements of a given population, which may be vouchers (in case of accounts) or a particular DDO (in case of macro level integrated audit of a department-like education, police, etc) or sanctions issued by various authorities of the government. Precise answers to such questions within an acceptable tolerance and with a given degree of confidence can be found using the methods of statistical sampling. The present method of selection of samples in our offices can be used with slight modifications for generalisation of results. It can be replaced with a more scientific method of selection of samples based on which audit comments can be made describing the population in the desired manner.

19.02. The audit has to express an opinion on the fairness with which they present the financial position and the results of operations or he has to give an opinion on the reliance of the determined adequacy of the internal control system of the auditee. This requires selection of a sample. An unscientifically selected sample does not lead us to any generalisation of finding and as such the opinion can be challenged.

While statistical sampling is desirable as it would enhance the effectiveness of Audit, the feasibility of introducing statistical sampling in Audit work and the methodology for application in various areas has to be examined on field study in selected offices.

Statistical sampling will require the following steps:

- (a) Determine an estimate of sample size
- (b) Determine the confidence level; and
- (c) Determine the tolerance limits.

It will give following advantages:

- (a) The sample result is objective and defensible.
- (b) Objective evaluation of a test result is possible.
- (c) The method provides a means of advance estimation of sample size on an objective basis.
- (d) The method provides for an estimate of sampling error.
- (e) It may give more accurate results than a 100% examination for large population size as failure to detect errors tend to increase if the population size is very large.
- (f) It saves time and money
- (g) It may be combined and evaluated even though accomplished by different auditors.
- (h) It helps in bringing the observations in sharp focus as these can be analysed for each type of auditee.

19.03. Local audit is planned for selected auditee units. The selection is based on various factors like availability of man power, audit sensitivity of various auditee units, budget allocation etc. Objections noticed during local audit are included in the Inspection Report which is issued to the concerned department. Serious objections (more money value or serious nature of irregularity) are included in audit reports. To take an example of the education department, if 200 primary schools are selected for audit in a given year, 200 Inspection Reports would be issued. These may contain objections of similar nature but no attempt is made to consolidate findings and issue a consolidated IR to the concerned department in addition to the Inspection Reports for each DDO.

19.04. In case of local audits, Audit will first have to evolve a standard list of objections found in different departments. The list will have to be department specific. Audit will have to be planned in a manner which permits use of this technique. Past data will have to be used to determine the standard deviation etc. The unit can be taken as DDO or district (as we are talking of one department).

19.05. Vouchers are numbered month wise and treasury wise. As such, if this technique is to be used during local audit, a way is to be found to number these vouchers serially which may enable sampling. One way is to use the bill register; do the selection from these and then get the concerned vouchers. Another way could be to feed all the voucher numbers in a computer and use Lotus or IDEA package to select the sample.

[No. 524-Trg.Div./19-97 dated 29-5-1997 of Principal Director (Training)]

19.06. Statistical sampling in the context of audit checks, embrace distinct part.

- (i) The determination of sample size
- (ii) The manner of selection of sample for checking
- (iii) Evaluation of the results of checks

19.07. The past practice has been mostly to decide on sample size at 8.33% or 4.16% of the total population of auditable documents (except for specified documents like contracts, vouchers above 0.1 lakh etc. where a higher percentage of 100% selection is made). The selection of sample is generally the vouchers for the month of March or an earlier month. But there is generally no evaluation of the results. The follow up on audit results has consisted only on remedial action by auditee on objections raised on the basis of the sample checked in audit. Audit view has been that it is for the auditee to generally reduce the future incidence of objections to nil.

19.08. The purpose of audit while checking the selected sample is many but include mainly

- (a) Checking the correct accounting of expenditure (or receipt) into accounts as per document audited (including correct classification).
- (b) Checking calculations of payment (or assessment of receipts) leading to the expenditure (or receipts) audited.
- (c) Checking interpretation of application of rules or contract clauses (or Tax Acts) leading to expenditure (or receipt).

(d) Checking achievement of objective of expenditure (or objective behind exemption of receipt due) i.e. performance or value for money audit.

(D.O. No. 48 - Audit (OM & M) / 102 - 94 of Deputy Comptroller and Auditor General).

19.09 As regards audit's role in detecting fraud and corruption; central audit should be made more purposeful and effective and statistical sampling techniques may be utilised for focusing on serious irregularities. Audit could also suggest streamlining of systems and procedures and insist on clear cut guidelines for exercise of discretion by the executive. The auditee agencies should be required to provide the audit team with a list of cases of fraud and presumptive fraud for the purpose of Audit Report.

19.10. As regards list of fraud and presumptive fraud, it is gathered that information on such cases in respect of audit units covered during local audit is generally obtained through questionnaire at the time of commencement of audit. However, the information may not be forthcoming for units not programmed/not taken up for audit during the year. Therefore, we should call for a list of cases of fraud and presumptive fraud from each Government Department for the purpose of Audit Report. The audit party at the start of local audit should also be asked to collect such list from the auditee organisation with a view to focusing attention on such cases in greater detail.

[CAG's Circular No. 7 of 1997 No. 433-Audit (MOM) 224-97 dated 8-8-1997]

19.11 Application of Statistical Sampling and methodology in audit.

All the PAs and TAs for the approval of sampling methodology and sample sizes are forwarded to the Statistical Wing of HQrs. While forwarding the request for approval of the sample sizes and sampling methodology to HQrs, the Draft guidelines along with the Audit Objectives must be enclosed with the request for approval of sampling and the details of the units at different levels i.e. Gram Panchayats/Districts etc. or/and the numbers of records contracts/offices/Zones etc. is to also be clearly indicated; the data used (if any) for selecting the sample is to also be enclosed with the request.

[CAG's letter No. 127-CAG/SA/NSO/2-2019 (Vol.III) dated 06-09-2019]

CHAPTER-XX

AUDIT OF EXPENDITURE IN EXCESS OF BUDGET ALLOTMENTS WITH SPECIAL MENTION TO THE ROLE OF FINANCE AND OTHER DEPARTMENTS

20.01 The records of Finance Department relating to cash and funds flow, statements from RBI, budgeting, appropriation accounts, civil accounts and related records are to be examined in connection with the excess draws.

1. Excess drawl of a particular department should be watched meticulously especially when Government took overdrafts from Reserve Bank of India. It should be seen if the excess drawl by a particular department could be controlled by Government, overdraft would not have been necessary for the Government.

2. It may be seen that the Chief Secretary drew the attention of all the Heads of Administrative Departments to the very difficult ways and means position and the fact that only Vote on Account was passed for the first four months. It may also be seen that instructions were issued on strict control of monthly expenditure within available budget provision, and cautioned them that they would be personally responsible for expenditure control. Some departmental officials might have disregarded these instructions and drawn large amount through contingent bills during April to July. Audit should make a note of this in the report.

3. Unjustified increase in Revenue expenditure in a particular department especially when Revenue expenditure of a department is not commensurate with the increase in the Revenue expenditure of the other Departments should be examined in audit in detail.

4. It may be seen that whether the Budgetary and cash flow restrictions imposed by the Government were ignored by the Department and Treasuries.

5. Whether the Finance Department was able to monitor the budgetary restrictions and enforce its own instructions from time to time regarding the passing of bills. Failure of Finance Department may be examined.

6. It may be seen whether any fraudulent draws due to irregular orders of Finance Department and expenditure under any scheme continue in spite of ban by Finance Department.

7. Whether any analysis of cash drawl from selected major treasuries, as directed by higher authorities, was done to ascertain the cause of heavy drawl, if any, and initiate disciplinary action against the officers responsible for such heavy draws.

8. Whether the Chief Secretary or Finance Secretary instructed to investigate the reasons for excessive draws on any particular occasion and those instructions were obeyed seriously by the Treasury Officers.

9. Whether the excess draws over the budget allotments belong to a particular department and if so, whether the reasons thereof have been analysed in detail.

10. Whether the Civil Accounts prepared by Accountant General (A& E) have shown any excess expenditure under any separate head of account and the Finance Department has initiated any investigation on the excess expenditure.
11. Whether the Finance Department bestowed proper attention on the monthly civil accounts of the Government, reflecting major head wise expenditure showing monthly and progressive expenditure. It may be seen whether the Finance Department utilised this as an important input in watching progress of expenditure against budget provision.
12. The excess and shortfall in expenditure under various sub-heads and minor heads against each major head is worked out by Accountant General (A & E) and reported to the Administrative heads of Departments and Finance Department for their comments and explanation, before the finalisation of the Appropriation Accounts. It may be seen whether the opportunity was utilised by the Administrative Department and Finance department to find out whether there was expenditure in excess of allotments.
13. The annual budget documents of Government include information about actual expenditure of previous years. It may be seen whether the Finance Department made use of the comparison of budget provision vis-à-vis the actual expenditure of any particular Department.
14. It may also be seen whether the Finance Department could make use of the details available with the annexure of the Memorandum for the Finance Commission to check any excessive expenditure than what is provided in the Budget.
15. Audit should see that proper action has been taken by the Government on Appropriation Accounts submitted by the PAG/AG.
16. Audit should see whether Government did investigate irregular or fraudulent claims reported in Comptroller and Auditor General's reports. If not, reason for not initiating investigative procedure should be commented.
17. It may be seen whether there is any failure on the part of the Finance Department while examining the Budget Estimates of any particular Department. Audit may verify whether the Finance Department accepted Budget proposals without figures of actual expenditure. The Budget estimates of any department can be modified only after discussion with the Department or after issuance of Budget slips. Audit should see whether this procedure has been followed without fail.
18. It may be seen in audit whether the Budget estimates of any department is approved by the authority competent enough to do it. It may also be seen whether re-appropriations were approved by officers authorised to do the same.
19. Chronic delay on the part of treasuries in rendition of accounts would cause delay in the finalisation of Annual Appropriation Accounts. Audit should mention the actual delay in the rendition of accounts by each treasury.
20. It may be seen in audit whether procedure contained in Article 267(2) of Constitution of India, regarding drawls from Contingency fund and meticulously followed.

21. Failure on the part of Treasury Officers should be highlighted in the reports with special emphasis on the following:

- a) Whether the Treasury Officer overlooked that improper bill forms were presented and got passed.
- b) The bills were signed by the D.D.O.s.
- c) The Treasury Officers were actually obeying the instruction / direction issued by Finance Department from time to time.
- d) The Allotment figures noted in the bills by D.D.O.s were checked by the Treasury Officers. It may be seen whether Treasury Officers abdicated their responsibility in checking the consistency or otherwise in the allotments noted in the bills. Ensure that the Treasury Officer maintains the 'Appropriation Control Register' prescribed in KBM Rule 67.
- e) Audit should see whether there are abnormal and huge payments on one day or during a given short period which would normally warrant special attention and further investigation.
- f) Audit should invariably ascertain the arithmetical accuracy in all such bills.
- g) As mentioned earlier in this chapter, the delay in the rendition of accounts should also be specified.

CHAPTER-XXI
COMPLIANCE AUDIT OF PUBLIC PRIVATE PARTNERSHIP
ARRANGEMENTS

21.01. Guideline for Compliance Audit of PPP Arrangements

Audit of PPP arrangements had been a focus area of concern as this involves access to the records of private parties. Hon'ble Supreme Court, in its judgement¹⁰ dated 17th April 2014, has allowed audit access to records of the private concessionaire in revenue share contracts to ensure that there is no 'unlawful gain' to the private concessionaire and no 'unlawful loss' to the Government/ public entity. This has expanded the audit access and the PPG group has issued a guidance note (4th July 2014) which lays down the audit protocol in such cases of revenue share PPP arrangements where the records of the private partner can be directly accessed. The earlier guidelines issued in 2009 dealt with performance audits of PPPs in infrastructure projects. Given the proliferation of PPP arrangements, their high materiality and significance, the audit of PPP arrangements needs to be mainstreamed as a part of compliance audits.

21.02 Scope of the Guideline

This Guideline draws attention to the following:

- Audit of PPP projects should be taken up as per the mandate provided under the Supreme Court Judgement.
- Audit of PPP projects should be mainstreamed and included as a component of regular audits.
- Audit should develop capacity and build specialisation in audit of PPP arrangements.

21.03 PPP Models Employed in Different Sectors

PPP models have been extensively employed in infrastructure sector in the country. These PPP infrastructure projects includes Transport, Energy, Water, Sanitation and Social & Commercial infrastructure. In addition to the PPPs in infrastructure, Government has entered into partnerships with the private sector for exploitation of valuable, monopolistic natural resources. An example is the award of hydrocarbon bearing blocks for exploration, development and production of oil and gas. In the ten rounds of NELP (New Exploration Licensing Policy), 254 exploration blocks have been awarded resulting in an investment of over 23 billion USD (till June 2006) in exploration and development activities. While some of the blocks have been won by PSEs in competitive bidding, considerable private partnership and investment has been seen in the sector. Other instances are award of spectrum to telecom service providers and award of coal mines through competitive bidding mechanism.

21.04 Existing Guidance and Audit Experience

In 2009, the Department brought out guidelines for auditing public private partnerships in infrastructure projects. The guidance has been effectively used to plan, conduct and report upon performance audits of PPP projects. Performance audits of spectrum and

¹⁰ Association of Unified Tele Services Providers & Others vs. Union of India

coal block allocation, development of brownfield airports in Delhi and Mumbai, development and maintenance of national highways, implementation of hydrocarbon production sharing contracts have been successfully attempted.

The Supreme Court Judgement (17th April 2014), has allowed audit access to records of the private concessionaire in revenue share contracts to ensure that there is no 'unlawful gain' to the private concessionaire and no 'unlawful loss' to the Government/ public entity. This has expanded the audit access and the PPG group has issued a guidance note (4th July 2014) which lays down the audit protocol in such cases of revenue share PPP arrangements where the records of the private partner can be directly accessed.

21.05. Strengthening and Mainstreaming Audit of PPP Arrangements

1 PPP arrangements in India follow various models and there are sector specific subtleties to these arrangements. Broadly, though, considering the financial interests of the Government/ public partner, there could be two distinct kinds of PPP arrangements:

- Arrangements which generate revenues for Government or the public partner; and
- Arrangements which are either neutral or involve expenditures from Government on account of Viability Gap Funding (VGF) or annuity.

2 In audit of both arrangements, the records of the public partner (Government/ public authority) are available for audit scrutiny. For revenue share contracts, however, the recent Supreme Court Judgement has provided access to records of the private partner also which expands the scope and extent of audit. It is felt that a set of risk factors and audit checklist would be of practical assistance for actual conduct of audit of revenue share contracts.

3 The earlier guidelines (2009) dealt with performance audits of PPPs in infrastructure projects. Given the proliferation of PPP arrangements, their high materiality and significance, it is suggested that audit of PPP arrangements be mainstreamed as a part of compliance audits. This would not only increase audit coverage of PPP projects and improve timeliness of audit, the regular audits could throw up irregularities in a sector or programme which could be more comprehensively studied later through detailed performance audit.

4 To facilitate regular audits and focus on revenue share arrangements, the following is recommended:

- **Uniform Database:** Each office may maintain an up to date database of PPP projects which would enable selection of a sample of such projects during regular audit of the public partner (Government department/ public entity). An indicative uniform format for the creation of such a database is enclosed at *Annexure-I*. The field offices may devise a mechanism for obtaining the details of PPP arrangements regularly so that the uniform database can be maintained and updated regularly. In case of State audits, these arrangements should be reviewed either in the Financial Attest Audit wing or by the wing concerned. The fact sheet would provide particulars of the project, the model of PPP employed and the key parameters of the project (total project cost and concession period). It also provides an indication of the project status including

expenditure incurred or revenue received by the public entity on the project. Additional information for revenue share contracts (total revenue earned, sources of revenue, revenue share model, changes in the revenue trend) have been built in the suggested database.

- **Risk Factors:** A set of indicative risk factors for PPP arrangements is at *Annexure-II* with focus on revenue share arrangements in particular. These indicative risk parameters may assist the audit office to select a sample of PPP projects for detailed scrutiny during regular audit.
- **Checklist for Audit:** A simplified audit checklist covering planning, selection of concessionaire and the implementation of the concession arrangement for use in compliance audits of PPP arrangements are at *Annexure-III*. Specific checks for revenue share arrangements have been highlighted in the checklist.

21.06. Access to Records of Private Entities for PPP Audit

PPP arrangements have two partners, the private sector partner and the public entity. While the records of the public partner can be audited in the normal course, the need to access the records of the private partner would have to be determined. The decision to access the records of the private sector partner has to be taken with the approval of the controlling DAI/ADAI, on a case to case basis, depending upon the risk assessment of the subject matter and the ability/inability of the CAG to effectively fulfil its mandate only through the records of the government/public entity. A guidance note prescribing the protocol for accessing the records of the private sector issued vide communication No. 119/3-PPG/2014 dated 04.07.2014 by Professional Practices Group.

21.07. Capacity Building

Considering that PPP arrangements are often long term contracts with high degree of complexity, there is a need for developing capacity and specialisation in the area at Headquarters as well as field offices. Along with traditional expertise of contract audit, an in-depth sector specific knowledge, understanding of information systems and ability to audit through such systems and an appreciation of legal provisions would be desirable for PPP audit.

Note: - This guidance would be supplementary to the Public Auditing Guidelines for Public Private Partnerships (PPP) in Infrastructure Projects, 2009.

(CAG's Professional Practice group's letter number 727/16 PPG/2016 of 24th August 2016)

Annexure-I
(Referred in Paragraph 21.05 (4))

Fact Sheet of Public-Private Partnership (PPP) Projects as on _____

Sector:
Policy/Programme/Scheme:
State:

Sr. No.	Particulars
PROJECT DETAILS	
1	Project Title
2	Project Details: <ul style="list-style-type: none"> • Administrative Ministry/ Department • Name of Sponsoring Authority (public partner) • Name of Implementing Agency (private partner) • Location (State/ District/ Town) • Brief description of the project
3	Mode of PPP: <ul style="list-style-type: none"> • Revenue share arrangements • BOT (Build, Operate and Transfer) • BOOT (Build, Own, Operate and Transfer) • LOT (Lease, Operate and Transfer) • Operations Concessions • DBFO/DBFOM (Design, Build, Finance, Operate and Management) • Joint Venture • Other Type (please, specify)
4	<u>Total Project Cost</u>
5	Concession period including possible renewals
6	Specification of standards and quality norms to be delivered
7	Project Status (As on _____): <ul style="list-style-type: none"> • Selection of private partner and signing of contract • Under construction • Under maintenance and operation
SELECTION OF PRIVATE PARTNER	
8	Basis of Selection of Private Party:

	<ul style="list-style-type: none"> • Domestic Competitive Bidding • International Competitive Bidding • Negotiated MOU • Unsolicited Offer
9	<p>Bidding Parameters</p> <ul style="list-style-type: none"> -Viability Gap Funding (VGF) -Premium -Annuity payment -Profit share, revenue share
10	<u>Private partner/ Consortium Selected</u>
11	<p>SPV details:</p> <ul style="list-style-type: none"> • JV incorporated along with share (If so, date of incorporation) • JV un-incorporated (If so, date of MOU or Other arrangement) • Other form (please specify, if any)
12	<p>Public investment in SPV (as on _____):</p> <ul style="list-style-type: none"> • Shareholding pattern of SPV indicating ownership of all parties (₹in crore and percentage) • Public equity Investment in SPV through Subsidiary (₹. in crore) • Non-cash investments, if any
PROJECT UNDER EXECUTION	
13	<p>Pattern of funding</p> <ul style="list-style-type: none"> -Equity by the Concessionaire -Long term debt -Share of public partner
14	<p>Responsibilities remaining with public partner</p> <ul style="list-style-type: none"> -provision of land -environmental and other clearances -expenditure made or committed (VGF, annuity etc.) -Tax benefit, if any, provided by the Government for the project -Others (e.g., guarantee provided)
15	<p>Expenditure incurred by public partner as on_____</p> <p>Revenue received by public partner as on_____</p>
16	<p>For revenue share contracts:</p> <ul style="list-style-type: none"> -Total revenue earned by private partner (for the past five years) -Sources of revenue earning

	<ul style="list-style-type: none"> - Model of revenue share with public partner (profit share, revenue share, etc.) - Whether the revenues are deposited in the Consolidated Fund of the Union/ States as per the agreement/ contract
17	Details of Escrow Accounts, if any.
MONITORING AND AUDIT	
18	Reporting requirements and their compliance as on... <ul style="list-style-type: none"> • Independent Auditor (IA) reports • Independent Engineer (IE) reports • Action taken on IA and IE reports
19	Audit arrangements, in particular provision for audit by CAG

Annexure-II
(Referred in Paragraph 21.05 (4))

Indicative Risk Parameters in PPP Projects

<u>Risk Parameter</u>	<u>Assessment</u>
Total project cost	Higher project cost indicates higher significance
Concession period	Higher period associated with higher risk Possibilities of renewal also enhances risk
Projects involving expenditure by public partner: <ul style="list-style-type: none"> • VGF paid • Annuity liability assumed 	Higher VGF payment or annuity liability would indicate a higher materiality for public audit
Projects involving revenue share <ul style="list-style-type: none"> • Overall revenue earned in the project • Diversity in sources of revenue and related party sources of revenue • Complexity of the revenue share arrangement • Changes in the revenue shared with public partner 	<ul style="list-style-type: none"> - Higher the revenue earned, higher the materiality for public audit - Higher diversity in sources of revenue, related party sources, increase the risk of completeness of revenue • Greater the number of adjustments, more complicated the sharing model, higher the risk • Decrease in revenue share of the public partner may be indicative of higher risk for the public auditor
Projects involving lower share of equity investment by the private partner	The finance risk is not adequately shared by the private partner and if public share is comparable or higher, may indicate a higher risk for public audit
Projects involving significant guarantees and residual liabilities of the public partner	Higher assumption of guarantees on revenue or other liabilities would indicate a higher risk for the public auditor
Specification of standard and quality norms	In case the standards, service levels/ quality are clearly indicated in the arrangement, the risk is lower
Monitoring action of public partner	Availability of regular IA and IE reports and persistent action on these reports lowers the risk

Audit coverage in the last five years	If the PPP arrangement has been audited in the last five years without any significant observations, the risk is lower
Subsequent changes in the terms of the agreement or termination	This indicates a higher risk to the public auditor
Implementation and contract management	<ul style="list-style-type: none"> • Establishment of a dedicated contract management team to monitor performance and approve payments would indicate lower risk • Lower capital at risk or easy exit options for the concessionaire suggests greater risk • Modifications/ variations to the contract implies greater risk • Fulfilment of conditions precedent by the transaction parties suggests lower risk
Adverse media reports/ Parliament questions/ complaints received	Indicates a higher risk of the project
Arbitration/ litigation resulting from the PPP arrangement	May indicate higher risk

Annexure-III

(Referred in Paragraph 21.05 (4))

Indicative Checklist for Audit of PPP Arrangements

Description	Audit examination
<u>Planning PPP Projects</u>	
<u>Plan, Appraisal & Approval</u>	<ol style="list-style-type: none"> 1. To check whether the project is a part of larger programme, long term plan or policy and is it in line with the approved parameters of such programme, plan or policy. Also whether the need for the project is clearly articulated and the project is justified when it is selected among many competing projects in terms of financial cost, selection of location. 2. To study the Detailed Project Report and Feasibility Report of the project to assess (<i>in case of projects where it is available</i>) <ol style="list-style-type: none"> (a.) The reasonableness of the assumptions made regarding the key parameters (eg., project cost, concession period, user charges, demand of the service). (b) In particular, the project cost may be scrutinised to check whether it has been overstated (through over-engineering or otherwise) to enable a higher VGF. (c.) The PPP model chosen is the appropriate one based on the project parameters and has been justified as the most suitable option. (d.) In case of annuity projects, may need closer scrutiny to check the rate of return in-built in the annuity payment to concessionaire. (e.) That the expected outputs of the project were clearly defined along with well-defined, enforceable, standards of operation and maintenance along with specific penalties for their violation. 3. To check whether the laid down appraisal and approval processes have been followed. In <u>particular</u>, to check whether the concerns expressed by the appraisal agencies have been addressed and the assurances given by the project authority have been fulfilled before final approval is taken. These issues could also be checked vis-à-vis the actual position during implementation stage. 4. To check the budget and fund availability of the public partner in case VGF or annuity mode is chosen.
<u>Selection of Concessionaire</u>	
<u>Tendering, Contracting</u>	<ol style="list-style-type: none"> (a.) To check whether appropriate tendering processes were followed by the public authority focussing on the following aspects: (b.) The RFQ (request for qualifications) and RFP (request for proposals) issued are in line with the standard approved documents and

	<p>deviations are adequately justified.</p> <p>(c.) That maximum competition is ensured throughout the tender process needs to be checked w.r.t. CVC guidelines. Competition could be checked by including un-reasonably restrictive criteria for participation, un-realistic timeframe for response, lack of information and publicity regarding the project, etc.</p> <p>(d.) In case a consultant has been appointed for supporting the bidding process, it needs to be checked that the consultant has been competitively selected and the terms of agreement with the consultant is in line with the model agreements available in this regard. The aspect of conflict of interest of the consultant will also need to be checked in audit.</p> <p>(e.) Whether the bids have been evaluated in an impartial and objective manner and whether the winning bidder satisfies all technical and financial qualifications for the project needs to be checked. It also needs to be checked that all bidders have abided by the bid conditions.</p> <p>(f.) In case of pre-bid conferences and any change in the tender document or additional support allowed by the public partner (eg. mobilisation advance), the implications needs to be scrutinised.</p> <p>(g.) The winning bidder complied with all terms and conditions and offered the best bid as per the bidding parameter.</p> <p>(h.) In case of participation of consortia in the contract, the legality of the consortium, competence and willingness of the parties etc. may be checked</p> <p>(i.) The contract entered with the winning bidder is in line with the model concession agreement. In case of any deviation, audit must check that adequate justification and approval of the competent authority exists for such departure.</p> <p>(j.) Whether the contract has adequate safeguards and penal provisions to deal with defaults of the concessionaire</p>
<p>Implementation of the <u>Project</u></p>	
<p><u>Conditions Precedent</u></p>	<p>Identify and list out the conditions precedent to be fulfilled by the sponsoring entity (eg., land acquisition, environmental clearance, etc.) as also the Concessionaire (performance guarantee etc.) as per the transaction Documents/Concession Agreement.</p> <p>To verify that the transacting parties fulfilled their obligations by the due dates. The impact of delay on the project completion to be assessed.</p>
<p><u>Capital at Risk for the Private Partner</u></p>	<p>To verify that the private partner has sufficient capital at risk so that exit becomes an expensive proposition. This is necessary as Government assumes a set of implicit guarantees in PPP projects of taking over the debt in case the private partner fails or goes bankrupt.</p>

	<p>Other instruments that could bind the private partner:</p> <ul style="list-style-type: none"> • a materially large performance bond to cover the period between acceptance of a bid and significant capital expenditure by the Private Party on the project • a sizeable performance bond or warranty towards the end of the contract.
Approvals	<p>To verify that necessary permits, authorisations and approvals required prior to the start of construction were obtained in a timely fashion. In case of failure, the party responsible needs to be identified and the impact assessed.</p> <p>Timely land acquisition, environmental clearance, external linkages are essential pre-requisites for completion of the project on time. Delays should be commented on along with responsibility for such delays and assessment of their impact.</p>
Financial Closure	<p>To verify whether the financial closure of the project was achieved on time (as per timeline specified in the agreement). In case of delays, its impact on the project in terms of time and cost to be assessed. The action taken by the project authority in such cases should be scrutinised to check whether action has been taken against the concessionaire as per the terms of the contract and penalty levied, if any.</p>
Cost of Capital	<p>Verify that the cost of capital required to fund the project has been correctly worked out and is close to the average cost of capital of the entity that owns the project.</p> <p>Verify that the debt equity ratio maintained as per approved project cost and bank loan sanctioned and drawn are as per approved project cost and milestone achieved.</p>
Adequacy of Planning	<p>To verify whether the work progressed as per plan. In case of deviations, the reasons for the same to be identified and checked against the premises assumed at the planning stage.</p> <p>The actual project design and project cost should also be checked vis-à-vis planned. In case of deviations, the reasons should be scrutinised and checked whether these were reasonably justified.</p>
Time and Cost <u>Over-run in Construction</u>	<p>To examine that the construction of the assets required for the project was completed on time, budget and to specification. The reports of the IA and IE would be useful for such assessment.</p> <p>The impact of time and cost over-runs to be scrutinised and commented. The risk of increasing costs may not be absorbed by the concessionaire and may be transferred to the users/ public authority which need to be scrutinised.</p>

<p><u>Funded Works</u></p>	<p>In case of capital intensive works (not included in the original project design), the project authority/ public partner may take them up at their cost. The details of such works needs to be scrutinised vis-à-vis the project design and cost and assess whether the PPP model employed for the project was reasonable in view of the funded works taken up later.</p>
<p><u>Shadow Fee</u></p>	<p>In case the agreement provides for shadow fees, payable by the public authority, or such provisions to insulate the concessionaire from revenue risk; its impact on the project and its viability along with the additional financial liability of the public partner needs to be scrutinised.</p>
<p><u>Contract Variations</u></p>	<ul style="list-style-type: none"> • Contract variations can lead to significant risk transfers back to the government and therefore cost increases beyond those previously approved by Cabinet. To verify that the contract specifically provided for an independent approval process for contract variations, and the same was utilised. • Whether reduction in annuity etc envisaged under contract made applicable for reduction, if any, in scope of work.
<p><u>Operations and Contract Management</u></p>	<ul style="list-style-type: none"> • To verify that a full-time contract management team was in place to monitor performance against key performance indicators, approve payments and deal with contract variations. • To verify that appropriate design review procedure is incorporated into the contract which enables the team to comment on or object on design without having given their approval to them. This is so as an approvals process for design will entitle the contractor to claim that the government has co-responsibility if there is subsequently a performance failure. • Examine whether the goods and services on which various exemptions such as excise duty were granted by the Government have been utilised in the projects.
<p><u>Revenue Sharing Agreements</u></p>	<ul style="list-style-type: none"> • Whether revenue from all sources have been correctly considered while arriving at the gross revenue. • Whether the calculation of gross revenue is correctly done as provided in the Concession Agreement and duly certified by the Statutory Auditors. • Whether the public authority periodically appointed the Chartered Accountants for conducting the special audit of the Gross Revenue, the findings thereof and the reconciliation of differences, of any. • Whether the deductions made to the gross revenue (for arriving at shareable revenue) were as per the terms of the agreement.

	<ul style="list-style-type: none"> • Whether the revenue share, royalty, taxes, duties and other payments as per the concession agreement are made correctly and on time. • In case the revenue share paid is on a provisional basis, it needs to be verified that the actual revenue share has been paid along with penalties and interest <u>liveable</u>. • In cases where the distributable revenues show a declining trend, the reasons for the same should be investigated and commented upon. • Whether the operation of Escrow Account i.e. deposits of revenue, receipts and withdrawal and appropriations is done as per the conditions specified in the CA. • Whether the state government has put in place any mechanism to ensure proper <u>accountable</u> of revenue, correct calculation of share of revenue, etc. • Whether any alternate accounting mechanism/organisation structure has been put in place to avoid booking of revenue to be shared with public authority.
<p>Profit Sharing Agreements</p>	<p>In addition to the concerns listed above for revenue share contracts, the following additional checks are indicated for profit share arrangements:</p> <ul style="list-style-type: none"> • To verify whether the costs booked to the project for arriving at the profit, are entirely attributable to the project. • To verify that the expenditures booked are accurate (have been actually incurred) and not inflated. • To verify that the expenditures indicated are approved and in line with the contract provisions. • To verify that the manner of incurring these expenses are as per the laid down processes and are reasonable. • To verify whether the party's share of profit was calculated in accordance with the provisions of the contract and paid at such periodicity decided by the contract. • In case payments were made as per provisional estimates, whether all such provisional estimates were approved by the Competent Authority and whether the actual payable has been computed and paid within the timeframe specified in the contract.
<p>Annuity and VGF Projects</p>	<ul style="list-style-type: none"> • To verify that no payments are made until the service which has been contracted is available. For example, in a water treatment project, no payments should begin until the plant has been commissioned and water of the required quality is being received. • The payment should be made only to the extent that the service is available, i.e., it should be proportionate to the quality or quantity of units.

	<ul style="list-style-type: none"> • Penalties for non-performance should be large enough so that the contractor's incentive to perform or to remedy performance defects is fully aligned with the government's interests. • In case mobilisation advances are paid for annuity projects, to verify that the advances were in line with the provisions of the contract and no additional favour has been extended to the private concessionaire.
<u>Service Quality</u>	<p>To verify that the level of service is as provided in the contract and in case of short performance, suitable penalties are levied on the concessionaire.</p> <p>To verify whether provision exist for third party inspection and the same has been carried out.</p>
<u>Handover processes and Terminal Value</u>	<p>To verify that safeguards are in place to ensure that the concessionaire will not default in the handover of the asset at the end of the project term or will deviate from the minimum quality / value of the asset that needs to be handed back to the public entity. Verify the expected realisable value of the underlying assets at the end of the project will not be significantly lower than that envisaged at the time of Project formulation.</p>
<u>Dispute Settlement</u>	<p>To verify:</p> <ul style="list-style-type: none"> • Whether the procedure prescribed has been followed in invoking the dispute settlement mechanism. • Whether the public authority has diligently followed up its case before the appropriate authority.

CHAPTER- XXII

ACCOUNTS OF VARIOUS DEPARTMENTS

Apart from the general checks prescribed in the Chapter – 4, special records points etc. have to be checked in some departments. Those are mentioned department-wise.

22.01. E.S.I. Medical Services.

(1) Introduction

Under Section 58(i) of the Employees State Insurance Act, the State Government is to provide for medical treatment of the insured persons and their families coming under the Employees State Insurance Scheme. Under section 58(3), agreements are entered into between the Employees' State Insurance Corporation and the State Government for sharing the cost of medical benefits under the scheme. Medical aid under this scheme is given through two systems (i) Service System and (ii) Panel system. The arrangement under the two systems are briefly outlined below :

- a) **Service System**: Under this system, the treatment is given to the insured persons in special hospitals and dispensaries intended exclusively for the employees covered by the scheme, as well as in other Government Medical institutions.
- b) **Panel System**: Under this system, each insured worker is given by the Regional Office of the Employees State Insurance Corporation an identity card which entitles him to medical benefit and an acceptance card which will be his application for the choice of a doctor out of a panel. Simultaneously, index cards sent by the R.O. of the E.S.I. Corporation to the Director of Medical Services (E.S.I.S.) in charge of the scheme. These index cards are arranged serially in a cabinet. When an insured worker chooses a doctor by taking his acceptance card to him, the Insurance Medical Practitioner (Panel Doctor) signs the acceptance card and sends it to the Director of Medical Services (E.S.I.S.). The cards so received from the Panel Doctors by the Director of Medical Services (E.S.I.S.) are kept serially in a separate cabinet, doctor wise. The name of the doctor with whom the worker has registered himself is noted in the Index card.

(2). Scope of Audit

In the Directorate, the following records are to be checked in audit:-

- a) Cash Book
- b) Hospital Ledger
- c) Doctor's Ledger sheets
- d) Permanent Advance Register
- e) Register of contingent expenditure
- f) Bills Register
- g) Register of Library Books and Periodicals
- h) Register of dead Stock articles
- i) Register of instruments and appliances
- j) Expense book of drugs
- k) Log book of ambulance cars
- l) Register of clothing
- m) Register of petty supplies
- n) Register of Telephone calls
- o) Register of stationery articles

- p) Register of forms
- q) Security Register
- r) Index cards, Medical Acceptance cards and Re-entry cards
- s) Disbursing officers Register,
- t) Issue Notes,
- u) Statement of claims,
- v) Register of adjustments,
- w) Register of recoveries,
- x) Capitation payment to Medical Practitioners

3) Process of Audit

The object of local audit is to check the initial accounts maintained in the dispensaries and hospitals and check the statement of accounts for the recovery of cost from the Corporation with reference to the statement received from the dispensaries and hospitals and the accounts in the Directorate. In addition to the checks prescribed in Chapter 4 of this Manual, the accounts to be checked in the ESI Dispensaries should include medical records of insured persons allotted to the dispensaries and hospitals like Index Card, Exit Card, Re-entry card etc. Some special points to be seen during local audit are given below :

a) Payment of Capitation Fees to Insured Medical Practitioners

- i) Check the statement showing the number of patients on the first day of each quarter registered with Insurance Medical Practitioners attached to the Detailed Contingent Bills with the number of patients shown in the Director's ledger sheets.
- ii) Check the amounts payable to Insurance Medical Practitioners as worked out in the Detailed Contingent Bill with the rates fixed by Government.
- i) See that the necessary certificate is attached to each DC Bill stating that the number of insured workers for whom claims have been prepared has actually been verified from the ledger of the individual Insurance Medical Practitioners
- ii) See that the total number of patients for which the Insurance Medical Practitioners are paid is not in excess of the maximum number of patients to be registered with the Insurance Medical Practitioners in the respective areas.

b) Payment of Hospital Charges

- i) Check the number of patients shown daily in the hospital ledger sheets with the weekly statements received from the approved hospitals
- ii) Check the amounts drawn on the abstract bills with reference to the number of bed days and vacant bed days (standing charges) and the approved rates.
- iii) Check the payments made to the hospitals in maternity cases with reference to the rates fixed by Government.
- iv) Check book adjustments for hospital charges in respect of Government hospitals

c) Check payments of Cost of Medicine to Approved Chemists

- i) Check the statement showing the accounts of supplies of medicines made to insured persons with the prescriptions for special medicines by the approved Insurance Medical practitioners

- ii) Check the total of the statement and the summary of the supplies prepared
- iii) Check the rates with reference to the schedule of rates approved by Government
- iv) See that the conditions of supply of medicines are observed by Insurance Medical Practitioners and chemists.

d) Hospital Ledger

- i) Check the daily number of beds with the weekly statements received from hospitals
- ii) Trace the total number of beds and vacant bed days to the DC bills
- iii) Review generally

e) Doctors Ledger Sheets

- i) Verify that the addition of insured workers are supported by Medical Acceptance cards
- ii) See that the total addition of workers on account of transfers in all the ledger sheets in any particular quarter is equal to the total deduction on account of transfer in the same quarter
- iii) Verify that the total number of Medical Acceptance cards in the cabinet of any particular Insurance Medical Practitioner is reconcilable with the corresponding number of insured workers in his ledger sheets.
- iv) Payment of capitation fees to Insurance Medical Practitioners is based on the number of insured workers registered with the practitioner at the close of each quarter. The Doctors' ledger in the office of the Director of Health and Medical Services (E.S.I.S.) is posted from the acceptance cards received from the Insurance Medical Practitioners.

f) Exit Cards

- i) Ascertain the total number of exit cards received during the year
- ii) See that timely intimations have been sent to the Insurance Medical Practitioners intimating them of the disentanglement in respect of all such exit cards
- iii) See in a few cases that deductions have been made in the Doctor's Ledger sheet in respect of disengaged workers from the bills pertaining to the relevant quarter.

g) Index Cards and Medical Acceptance Cards

- i) the index cards bear all particulars such as the insurance number of the Insurance Medical Practitioner, his name, the name of the employee, etc.,
- ii) They are duly cancelled when a corresponding exit card is issued
- iii) For every Medical Acceptance card there is a corresponding index card and that the Medical Acceptance card bears the signature of the Insurance Medical Practitioner, his code number and other particulars as on the index card.

h) Register of Instruments and Appliances and Expense Book of Drugs

- i) Trace new purchases from bills and vouchers
- ii) Check the issues to various diagnostic centres with their acknowledgements
- iii) See that the annual physical verification has been carried out and the fact certified
- iv) See that certificates are received from the Medical Officers in charge of Diagnostic centres regarding annual physical verification of the stock in their possessions.

j) Re-imbusement of Cost from the Employees State Insurance Corporation

As the allocation of expenditure between Government and the Corporation is based on the figures shown in the statement, the sources from which the figures are collected and the basis of allocation should be checked carefully to see that they are in accordance with the agreement and rules framed by Government in this regard. The correctness of the statement of accounts prepared should be verified in audit and it should be seen that reconciliation of the department figures with those booked in the Accountant General's office is duly effected.

Note : 1) With a view to arriving at the net cost of Medical care under the Employee's State Insurance Scheme, the receipts arising on account of the sale proceeds of any item previously purchased under the Head "E.S.I.S" should be deducted from the total cost of the medical benefits, while arriving at the net expenditure which is to be appropriated between the State Government and the Corporation in the agreed ratio.

2) The inspection report on the local audit of the E.S.I. Dispensaries should be addressed to the Director of Health and Medical Services (E.S.I.S.) and a copy of the Report should be endorsed to the Medical Officer in charge of the dispensary. The Inspection Report on the Local audit of the Office of the Director of Health and Medical Services (E.S.I.S.) should be addressed to the Secretary to the Government of Gujarat, Panchayat and Health Department with a copy to the Director.

22.02. Industrial Training Institutes.

1) The training institutes are established with the approval of Government of India. The Director of Employment and Training is in the administrative control of the institutions. The scheme provides for training of adult civilians in various crafts. The object is

- i) To ensure a steady flow of skilled workers in different trades for industry
- ii) To raise the quality and quantity of industrial production by systematic training of workers
- iii) To reduce unemployment among educated youth by equipping them for suitable industrial employment

2) Scope of Audit

The audit party should go through the details of the scheme as approved by the Government of India before audit is taken up. It should be seen in local audit that the limits fixed by the Government of India for items of expenditure are not exceeded and that initial accounts are kept properly. A list of the important accounts and registers to be maintained by the institutions and to be examined in local audit is given below :

- a) Cash book
- b) Receipt books and the account of receipt books
- c) Acquaintance Rolls
- d) Contingent Register
- e) Service Books
- f) Attendance registers of trainees and stipend bills
- g) Admission Register
- h) Register of training fees

- i) Bonds register
- j) Register of medical grants
- k) Register of sports grants
- l) Register of free food allowance
- m) Register of Liabilities
- n) Register of auction sales
- o) Stores order forms
- p) Stores requisition books
- q) Stores return books
- r) Stock register of furniture
- s) Stock register of books
- t) Stock register of tools and plants
- u) Stock register of workshop, clothing, etc.
- v) Stock register of raw materials
- w) Job sheets
- x) Stock register of manufactured articles
- y) Manufactured goods return book
- z) Register of dead stock
- aa) Register of recovery of tools lost, damaged or broken by trainees
- bb) Monthly accounts,
- cc) Expenditure Analysis Register,
- dd) Guard File for Bills,
- ee) Manufactured Goods Stock Book,
- ff) Register of Recovery of Tools Lost by Trainees etc.

3) **Process of Audit**

The important checks to be exercised besides those prescribed in Chapter 4 of this Manual are detailed in the succeeding paragraphs:

a) **Stipends**

It should be seen that:

- i) stipends have been drawn only for the authorized number of trainees actually on the rolls of the institute from month to month and at the sanctioned rates
- ii) stipends are not drawn beyond the stipulated period of training
- iii) trainees are allowed stipend only for the sanctioned number of holidays and leave
- iv) the trainees have on admission, executed a bond in the prescribed form
- v) the cost of training is recovered from trainees who discontinue training before the end of the course in accordance with the prescribed procedure

b) **Training Fee**

It should be seen that :

- i) training fee has been drawn by the Institute correctly at the rates sanctioned and in accordance with the rules thereto
- ii) the cost of stationery and other consumable stores supplied to trainees is met from the training fee and that the same is not drawn as a separate item of expenditure

c) **Workshop Clothing**

It should be seen that :

- i) workshop clothing is supplied to trainees in accordance with the instruction on the subject and

- ii) the trainees in the technical trades of Draughtsman and surveyors, who have generally not to work near moving machinery, are not provided with workshop clothing

d) Stores Order Forms

It should be seen that :

- i) in respect of tools and equipment or machinery where rate contract exists between the manufacturers and the Directorate General of Supplies and Disposals, all purchases have been made against such rate contracts
- ii) all other articles have been purchased through the purchasing agency of the State Government
- iii) payments for value of articles supplied have been noted in the purchase orders to prevent double payments and
- iv) every purchase is supported by a purchase order

e) Stock Book of Raw Materials and Stores

It should be seen that :

- i) raw materials and other consumable articles are correctly entered in the stock register from the bills received from the suppliers before the bills are paid by the Cashier
- ii) the issues made are shown as such in the store requisition book
- iii) only the quantities sanctioned by the head of the office are issued
- iv) all the issues are supported by issue notes
- v) quantities shown as issued in the original issue notes filed by the sections agree with the quantities shown as issued in the stock registers
- vi) the quantities sanctioned as per duplicate requisition slips in the custody of the section, instructions, etc., agree with the quantities shown in the original copies filed by the store keepers

f) Store Requisition Book

It should be seen that :

- i) these books (with duplicate sheets for carbon copies) are supplied to each of the Sectional heads either instructor or supervisor instructor
- ii) the purpose for which the raw materials and stores are indented is noted in the requisition slip as for a definite job or exercise, etc.
- iii) the indent is sanctioned by the head of the office before the articles are issued by the store keeper
- iv) the job or the exercise numbers are noted in the indent to facilitate the posting of the articles issued in the manufacturing register and
- v) the store keeper has not made any issue on indents in which the job or the exercise numbers are not noted

g) Store Return Book

It should be seen that :

- i) the stores or raw materials issued in excess of the sanctions and returned by them are entered in the register
- ii) there is no omission to note the job or exercise numbers against which these stores have been originally issued to the sanctions

iii) articles of store returned have been credited to stock and necessary entries made in the stock register

h) Job Sheets

It should be seen that :

- i) the issue of raw materials is in accordance with data duly prepared and the labour charges are in accordance with the labour analysis sheets
- ii) proper data are prepared wherever necessary before jobs are executed
- iii) the execution of the jobs is not unnecessarily delayed and
- iv) the jobs are correctly priced and billed for

i) Manufactured Goods Return Books

It should be seen that :

- i) the articles manufactured by the trainees have been entered in this book with the job or exercise numbers to facilitate cross check with the indents
- ii) the store keeper has filed a duplicate copy in his guard file and entered the article in the stock register of manufactured articles

j) Stock Register of Manufactured Articles

It should be seen that :

- i) the opening balances of articles agree with the closing balances of the previous year
- ii) the articles manufactured in workshops and delivered to the stores according to the job sheets have been duly entered in the stock book
- iii) all sales or issues of manufactured articles as per the sales day book have been duly entered in the stock book
- iv) the articles supplied but rejected have been duly receipted in the stock book

22.03. Agriculture and Co-operation Department

This Department consists of Agriculture, Co-operation, Animal Husbandry, Fisheries, Cow Breeding, Societies, and Agricultural Education Directorates. The Additional Chief Secretary is the head of the Department.

A. Agriculture

Agriculture Department is headed by Director of Agriculture.

1) The Various functions and Responsibilities of the Department are:-

- a) To ensure that applied technology is transferred to a large number of farmers within the shortest time.
- b) To arrange availability of all inputs including irrigation, recommended seeds, Fertilizers, Pesticides, Improved Implements etc. in time at reasonable prices and of proper quality.
- c) To take up and implement very speedily the programmes of irrigation water and land development in dry farming areas, command areas and saline areas.
- d) To see that adequate credit availability and timely credit repayment is ensured.
- e) To ensure remunerative price for each crop to the farmers, so as to ensure that they have adequate incentives to produce more and improve productivity keeping in view the overall needs of the economy and interest of the consumer.

- f) To provide protection against risk and uncertainty of climate.
- g) To increase the crop production by use of micro irrigation management under adoption of Israel Technology.
- h) To conserve the rain fed water as an under ground water resources by adopting various methodology of water harvesting.
- i) To increase the production in rain fed Agriculture by using Hybrid / improved seeds.
- j) To decrease the use of Insecticide by adoption of Integrated Pest Management (I. P.M.) Technology etc.

2) Points to be Seen by Local Audit Parties

(i) The Local audit staff should before commencement of audit make themselves conversant with the instructions in the Manuals/circulars issued by the department and Government from time to time. The party should particularly see that:

- a) the accounts of procurement and sale of seeds, seedlings, manures, pesticides etc. and review the procedures.
- b) The accounts of short terms loans. Reason for the pendency in recovery should be investigated and commented in the Inspection Report.
- c) Accounts of subsidies of various kinds should be checked
- d) Stores accounts
- e) Loan and subsidy transactions
- f) The accounts relating to the hire purchase of agricultural implements
- g) Maintenance of Government vehicles
- h) Proforma accounts of schemes
- i) Personal Ledger Account for schemes
- j) Grant-in-aid sanctions
- k) Scholarship sanctions
- l) Conduct detailed scrutiny of State Schemes, Centrally Sponsored Schemes and other special component schemes implemented by the department i.e. examine the progress, achievement of targets fixed, any shortfalls should be commented upon.

(ii) Stores Accounts

It should be seen that stores accounts are maintained in respect of permanent stores, furniture's, books, forms, stationery and consumable stores like kerosene oil, etc., separately and that details of articles acquired for departmental use and articles intended for sale to the public are kept separately.

(iii) Procurement and Sale of Seeds and Manures

It should be seen that:-

- i) that the procurement of seeds and manures is made economically,
- ii) that the transactions relating to the procurement, distribution and sale of seeds and manures are brought to account then and there and remuneration allowed for distribution is correct,
- iii) that the sale price is fixed as per the instructions available in this regard,
- iv) that separate registers for the free supply or supply at concessional rates of seeds and manures are maintained and

v) that the supply is made under the sanction of the competent authority after careful scrutiny of the particulars in the applications for supply.

(iv) Loan and Subsidy Transactions

It should be seen that:

- i) Proper record is kept for the transactions of disbursement and recovery of loans,
- ii) No loans are granted for discharging loans obtained from private parties,
- iii) Loans are not remitted by remittance transfer receipts,
- iv) They are paid only to the parties concerned or to their authorized agents,
- v) Security bonds and receipts have been taken,
- vi) The amount of the loans does not exceed the limit imposed

(V) Hire Purchase System of Agriculture Machinery

It should be seen that:

- i) Loans are granted upto the limit prescribed on proper applications and after proper enquiry,
- ii) The application are supported by necessary solvency certificates,
- iii) Necessary agreements and surety bonds are taken from the loanees,
- iv) The recovery of the transport and erection charges is made in full
- v) The instructions issued for loans are followed strictly without any lapse.

(vi) Proforma Accounts of Schemes

It should be seen that :

- i) The orders of Government under which the proforma accounts are maintained should be gone through and check that the rules and regulations prescribed for maintenance of proforma accounts have been followed.
- ii) The proforma accounts are maintained for all schemes for which such accounts are to be prepared.
- iii) Check whether the accounts have been correctly prepared with reference to the returns received from the sub-ordinate officers or the initial records maintained in the offices,
- iv) The financial results of the various schemes should be critically examined and commented upon
- v) Compare the results of various schemes with those of the previous years and ascertain the reasons for variations
- vi) Large outstanding of hire charges, hire-purchase instalments and water charges
- vii) Loans or subsidies due from the Government of India wrongly computed and loans and subsidies pending realization from Government of India
- viii) Non recovery of penal interest on arrears
- ix) Non collection or inadequate collection of deposit amounts from hire purchasers
- x) Delay in insuring the tractors, oil engines, etc., under comprehensive risk
- xi) Delay in execution of agreements under the hire purchase schemes
- xii) High percentage of tractors, bull dozers etc. under repairs or remaining idle under the Hiring schemes.

xiii) Files relating to tenders and contracts for purchase of agricultural machinery, pesticides, fertilizers, etc., should be scrutinized.

3) Agricultural Farms

(i) The following are the important records in addition to the usual registers to be maintained by farms

- a) Form of delivery of farm produce
- b) Indents for supply of farm produce
- c) Store Journal
- d) Stores Ledger
- e) Food and Fodder Accounts
- f) Yield Book
- g) Plot History Book
- h) Muster rolls
- i) Daily Labour sheet
- j) Cultivation sheet
- k) Register of Buildings
- l) Register of Dead stock
- m) Live Stock Register
- n) Live Stock Account Book
- o) Inventory and yearly valuation of implements
- p) Register of hire of farm carts
- q) Stock Register of articles like pesticides etc.
- r) Register of Plant and Machinery
- s) Log books of Agricultural Machinery

In addition to the usual checks contemplated in chapter – 4, the following additional checks should also be exercised:-

(ii) Plot History Books

It should be seen that the history of each field or farm is kept upto-date showing the crops it has borne, the manure it has received and any other information as to drainage aspect and special cultivation of value

(iii) Cultivation Sheet

In respect of bulk crops (non-experimental) it should be seen that the details of each operation performed from the preliminary cultivation to the harvesting of the crop and cleaning the field are entered. It is also to be seen that the actual amount paid for labour; cost of maintenance of work cattle, proportionate cost of plough share, spare parts and other implements based on depreciation have been entered. Profits and loss on operation is calculated on the basis of the value of the produce determined at prevailing market prices. In respect of experimental crops, it should be seen that profit and loss statement is prepared in all cases where it has been so ordered.

(iv) Muster Rolls

It should be seen that:

- i) that the number of labourers tallies with that sanctioned by the competent authority
- ii) that overtime wages are at the rate prescribed
- iii) that the wages for leave periods for regular coolies are regulated as per the instruction in the Departmental manual
- iv) that they are prepared and checked as per instructions in the Manual and contains the requisite certificates.

(v) Hire Charges of Farm Carts

It should be seen that :

- iii) that the hire charges are worked correctly as per the rates prescribed and
- iv) that the collection is made promptly and brought to account

(vi) Stock Ledger

This register should be checked with the form of delivery of farm produce so as to ensure that all the field and garden produce obtained from the station have been accounted for.

It should be seen that :

- i) the issues are made under the orders of competent authority
- ii) the balances are worked out correctly
- iii) the sales are traceable in the cash book or the ledger, as the case may be
- iv) stock balances have been verified and the losses on account of dryage and wastage, etc., have been approved by the competent authority and
- v) the bills are made out correctly for all, including transfer cases.

(vii) Food and Fodder Account

It should be seen that :

- i) the receipts are properly accounted for and are in agreement with issues noted in the Store ledger
- ii) issues are regulated according to the prescribed scale
- iii) tender notices are given to reputed firms well in advance
- iv) the purchases are made in the most favourable seasons
- v) the lowest tender is accepted and
- vi) the purchases are not intentionally split up so as to avoid the necessity of calling for open tenders through advertisement.

(viii) Register of Buildings

It should be seen that :

- i) it is maintained in the prescribed form
- ii) the statement of recoveries are regularly prepared in respect of all the buildings
- iii) recoveries are made regularly
- iv) recoveries as and when made are credited to treasury

(ix) Yield Book

It should be seen that :

- i) the receipts are in agreement with the figures of out turn shown in Plot History book
- ii) there exists a proper voucher in respect of issues

4) Agricultural Depots

As the bulk of the stores of the Agricultural Department is stored in the depots, the main object of the local audit of these depots is to ensure that the stores and stock accounts are properly maintained and the receipts are realized and brought to account promptly.

In addition to the usual checks contained in Chapter – 4, the following instructions should be followed.

It should be seen that :

- a) the receipt and issue of the various commodities are correctly and promptly brought to account in the stock registers and the balances are verified periodically,
- b) the discrepancies between the book balance and the actual balance are reconciled promptly,
- c) the rates adopted for the sale of the various commodities are according to the sale price fixed for them
- d) the bills are made out promptly and collections brought to account and remitted into the treasury without any delay
- e) issues in respect of free transfers are supported by the acknowledgements of the recipient officers
- f) the register of bill books is maintained properly and the completed bill books are kept under proper custody
- g) a proper account of the empty gunny bags is kept and the auction sale is conducted at rates favourable to Government.

B. Animal Husbandry Department

The Animal Husbandry Department is headed by the Director of Animal Husbandry. The Department is responsible for matters relating to livestock production, conservation of local breeds, protection to livestock and birds from diseases and improvement of livestock. The major activities of the Department are Veterinary services, Animal Health Care, Cattle, Buffalo, Sheep & Goat, Horse, Camel and Poultry Development etc.

Each Veterinary Dispensary / hospital / polyclinic is under the charge of a Veterinary Surgeon. District Veterinary Centre is holding the district level supervision charge. The audit is done with reference to the rules regarding admission of inpatient, feeding fee for admission, treatment, operation, ambulance charges etc as laid down by the department.

Farms of various types are maintained by the department with the object of producing pedigree cattle by the process of selective breeding and grading up of stock. The farm under the department consist of the following: Dairy, Cattle, poultry, sheep, buffalo, Goat, pig, pasture and gardens etc. While auditing the farm accounts, the following special points may be looked into :

- a) Whether the actual performance is as per the action plan / forecast for the year.
- b) Whether there was hindrance for breeding operation. If so, the reason there of.
- c) Whether the average insemination index compare to the norm prescribed.
- d) Whether there was decline in conception rate of cases inseminated.
- e) Whether there was increase in mortality of stock.
- f) Whether the disposal of useless animals has been done.

- g) Whether the amount fetched for the sale of animals is not less than the minimum fixed by the department.
- h) That the livestock was valued at the beginning of the year and noted in the Animal Valuation Register
- i) That the yields of milk/egg etc. have been recorded.
- j) That the farm produce has been properly accounted for.
- k) It should be examined whether the purpose for which the farm and other institution have been launched have been achieved.

C. Co-operation Department

The Main activities of the department are to enforce the 1961 law regulating the co-operative societies of Gujarat and regulating the Gujarat Agricultural Produce Market Committee by enforcing the 1963 legislation in order to control the development of the States Agricultural Market Committee. The 1947 Bombay money-lending law, the 1973 Gujarat ownership flat act and implementation of the Bombay Stock act is also part of the department's duties. Apart from these, the other main functions and activities of the department can be described as under: -

- a) Enforcing law in Co-operative Societies and registering them. It also involves keeping a watch over the societies in order to optimize their functioning and to examine the accounts of these societies. The department has to control the societies according to the laws. The accounts of the societies are audited by the department. The department also has to resolve conflicts between members in the society. Providing the services available legally, making available monetary facilities according to the State's laws.
- b) Organizing committees to implement the Gujarat Agricultural Produce Market Committee law as well as announcing Idaro for the agricultural produce laws. Examining the committee's to check whether they are following the market policies. Electing the market committee
- c) Implementing the money lenders' law and issuing licenses to money-lenders after investigating applications registered against them. Taking legal actions against money-lenders who violate the money-lending law. Preventing the exploitation of poor people who procure finance from private money-lenders.
- d) To inform builders and promoters of flats to submit the documents according to Act 5 and Rule 10 of the Gujarat Ownership Flat Act. Examining the records and protecting the rights of the flat holders.
- e) Different types of Co-operative Societies and Market Committees obtain financial aid through different schemes of the Government. The different schemes currently enforced are published in a separate book which has all the details of the schemes

The statutory functions of the Department of Co-operation are audit, arbitration, execution and liquidation of Co-operative Societies in the state. In addition, the department is charged with the responsibility of promoting development and regulation of co-operatives. In the case of industrial Co-operative societies, milk supply societies, Khadi and village societies, fisheries societies, cotton and handloom societies, the responsibilities of the Department is limited to auditing.

The department is headed by Registrar of Co-op. Societies. There are Joint Registrars of Co-operative Societies (General) and Joint Registrar of Co-operative Societies (Audit) at district level and Asst. Registrar of Co-operative Societies (General) and Asst. Registrar of Co-operative Societies (Audit) at Taluka level, the Co-operative Training Centres and Co-operative Colleges.

In auditing the accounts of loan and other assistance to various co-operative societies, it should be seen in audit that :

- i) Loan amount are not in advance kept under suspense account waiting for completion of formalities
- ii) Delay in drawing financial assistance and distribution to societies
- iii) Assessment of actual functioning of the societies receiving financial assistance
- iv) Defalcation cases already noticed.
- v) Account of investment of share capital by Government.
- vi) A general scrutiny of the guarantees given by the Government on behalf of co-operatives towards loans etc. raised by the later should be done and commented.
- vii) The main revenue of the department is audit fee, average cost, execution fee, dividends etc. It should be seen in audit whether demands are correctly raised and promptly recovered.

D. Fisheries Department

The Fisheries Department works under the Director of Fisheries. There are Deputy Directors of Fisheries at district level. The activities of the Department include

- a) Inland Fisheries new initiatives
- b) Marine Fisheries Programmes
- c) Other socio-economic schemes.
- d) The activities of the department are to issue I.D. Cards or Smart Card to all fishermen working on high-seas and coastal areas which will help the State Government in identifying fishermen whenever a calamity occurs on high-seas and coastal area.
- e) Diesel Subsidy Scheme
- f) Aquarium for General Public & School Children
- g) Schematic Information of Fisheries (Inland Fisheries)
- h) Additional Information about Inland Branch activities

The local audit party should examine the schemes implemented by the department and bring out any defective functioning of the Schemes besides other irregularities in general. The department has some boat building yards and repair and service stations. It should be seen in audit whether the yards are utilised to the full capacity. Under-utilisation should be probed and commented.

22.04. Scheduled Caste Development Department

The department deals with matters relating to scheduled castes and backward communities. The head of the department is the Director of Scheduled Caste Development. There are District SC Development Officers at district level and SC Development Officers at Block level.

The main activities of the department include: -

- a) Grant of educational concessions.
- b) Providing hostel accommodation to the SC students.
- c) Starting nursery schools for SC children.
- d) Maintenance of training centres of various trades.
- e) Providing grants to technically qualified hands for starting practice.
- f) Payments of grants for purchase of agricultural implements.
- g) Payment of interest-free loan to SC members to start small scale industries.

While auditing the Industrial Training Centres, raw material account, individual ledgers, order books, stock book of finished articles, sales cash book, work slips, cash sale memos, indent for raw materials etc should be verified.

22.05. Scheduled Tribe Development Department

The department deals with the welfare of Scheduled Tribes in the State and the working is similar to the SC Development Department. The department is headed by a Director and there are Tribal Development Officers/Tribal Extension Officers under him. The audit checks are similar to those in the case of SC Development Department.

22.06. Health Services Department

1) The Health Services Department performs the function of delivery of primary health care in a wholesome manner and the attainment of preventive family welfare including maternal and child health care. The department works under the Director of Health Services. There are District Medical Officer at district level. The health care services are imparted through Dt. Hospitals, Community Health Centres, Primary Health Centres and Government Dispensaries.

2) Apart from the usual checks prescribed in Chapter-4, the following records should be checked while auditing the accounts of government hospitals.

- a) Nominal Register of Inpatients, Register of fees charged for major operations and confinement, Register of fees charged for costly drugs, Register of hospital stoppages, Register of recovery of dietary charges.
- b) Nominal Register of Radiographic and ECG treatment etc. -Register of paying patients.
- c) Register of anti-rabies treatment, Register of sale of medicines
- d) Patients property Register
- e) Register of Ambulance and log book,
- f) Stock book of provision (diet articles)
- g) Stock book of linen
- h) Stock book of drugs and medicines
- i) Stock book of surgical instruments.
- j) Dhobi account
- k) Register relating to daily expenditure of dietary articles.
- l) Register of samples diet articles sent to Public Analyst.

The latest orders /circulars issued by the DHS for the maintenance of hospitals and up-keep of accounts should be gone through before the audit of hospitals is taken up and irregularities commented in the inspection report.

22.07. Medical Colleges

The Medical colleges in the State are working under the administrative control of the Director of Medical Education. Special attention has to be paid to the checking of receipts and stores and stock accounts. In addition to the general checks contemplated in Chapter 4, following points may also be looked into:-

- a) Whether proper DCB Statements have been prepared in respect of Fees
- b) Whether Amount due as per Nominal Register is realised,
- c) Whether Notes of concession is recorded in the Nominal Register,
- d) Whether Refunds of fees collected are made on proper vouchers and authority,
- e) Whether exemption of the payment of fees are supported by orders of competent authority,
- f) Whether fees collected are remitted into treasury on the same day or without delay,

The local audit party should also verify the Van Accounts, Register of Quarters/Rent, and Canteen Accounts.

CHAPTER-XXIII

PAYMENT OF PENSIONS TO CENTRAL AND STATE GOVERNMENT PENSIONERS AND OTHER CENTRAL TRANSACTIONS CARRIED OUT BY PUBLIC SECTOR BANKS

23.01. Audit of Central Pensions

(i) The scheme for payment of pensions to Central Government pensioners (including pensioners of the department of Defence and Railways) by public sector banks was introduced by Government of India in stages from the 1st of July, 1976. For this purpose, a list of public sector banks has been prepared and approved by Government of India. The overall supervision and co-ordination of this work at the district level is carried out by the nominated branches of the approved public Sector Banks designated as Link Branch.

The authority issuing the Pension Payment Order will indicate in it the particular branch of the public sector bank from which the pensioner has opted to draw the pension. He will forward through the Treasury Officer concerned both the halves of the Pension Payment Order to the Branch of the Public Sector Bank through the link branch of the Bank. The pensioner on receipt of the intimation from the paying branch of the Bank should appear in person and produce before the Bank the personal copy of the letter issued by the A.G(A & E) forwarding the Pension Payment Order to the Treasury Officer and furnish, an undertaking for refund of amounts if any overpaid etc. The paying Bank will credit the pensioner's individual savings/current account pension including dearness relief sanctioned by Government of India from time to time. Payment of pension including family pension is automatic and no bill is required to be presented.

(ii) During local audit of pension payments made by the Bank, among other things it should be seen that:

- a) Income Tax is deducted at source wherever required and certificate of tax deduction issued in April each year.
- b) In case of the death of the pensioner, payment is made only upto and including the day of death of the pensioner.
- c) Payment of lifetime arrears of pension is made only to the legal heirs of the deceased pensioner.
- d) No amendment or change in the rates of pension is made except on proper authority.
- e) Life Certificate, certificate of non-employment / non-marriage/ re-marriage have been obtained where required.
- f) Classification of pension has been made correctly.
- g) Family pension at lower rate is enforced from the date mentioned in the pension payment order.
- h) Commuted portion of pension is deducted from the original amount of pension while making monthly payments.

23.02. Audit of State Pensions

A scheme for the payment of pensions to State Government civil pensioners and All India Service Officers who retired from a post under the State Government and those who were borne on the State cadre and retired from posts under the Central Government

from 1st October, 1982 onwards and family pensioners, through the under mentioned Public Sector Banks was introduced in the State of Gujarat.

- a) State Bank of India
- b) State Bank of Saurashtra
- c) Canara Bank
- d) Syndicate Bank
- e) Union Bank of India
- f) Central Bank of India
- g) Bank of Baroda
- h) Bank of India
- i) India Overseas Bank
- j) Punjab National Bank

account of the pensioner with the paying branch. On receipt of payment authority, the paying branch will also make payment of Death-cum-retirement Gratuity/ commuted value of pension by crediting the amount to the account of the pensioner. The paying branch will credit to the pensioner's account the net amount of the pension payable for a month on the first working day of the same month and if in exceptional cases the pension could not be credited on the first working day it should be ensured by the bank that it is credited as soon thereafter as possible. The paying branch is responsible for the existing State civil pensioners and All India Service Officers who retired from a post under the State Government and All India Service Officers borne on the State cadre but who retired from posts under the Central Government on or after 1st October 1982 and family pensioners drawing their pension from treasuries in the state and future pensioners of these categories can opt to draw their pensions from any branch of the aforesaid public sector banks selected by them. The overall supervision and co-ordination of the work connected with the disbursement of pension and its accounting at the district level is carried out by the nominated branches of the above mentioned public sector banks designated as Link Branch.

At the time of authorisation of pension to a retired person the Accountant General(A&E) will issue the Pension Payment Order to the District Treasury Officer mentioning in the Pension Payment Order the particular branch of the selected public sector bank from which the pensioner has opted to draw the pension. Both halves of the Pension Payment Order will be forwarded by the District Treasury Officer to the link branch of that public sector bank. The link branch will forward the documents to the particular paying branch of the public sector bank specified in the Pension Payment Order and endorse a copy of the letter to the pensioner.

The paying branch after the receipt of the documents shall address the pensioner through a letter to appear at the branch along with the personal copy of the letter issued by the Accountant General forwarding his/her Pension Payment Order to the Treasury Officer, non-employment undertaking, undertaking for refund of excess amounts (if any) paid etc. On the first appearance of the pensioner at the paying branch, the designated officer of the Bank has to satisfy himself about the identity of the pensioner and obtain the pensioner's specimen signature / thumb impression and the documents called for before commencing payment of pension. The pension after deduction of income tax will be

paid by the paying branch by credit to the savings/ current deduction of the income tax at source from the pension payments and issue to the pensioner in April every year, a certificate of tax deducted in the form prescribed in the Income Tax Rules. Any enhancement in the quantum of relief sanctioned by the State Government will also be paid by the Bank following the directions issued by the Accountant General (A & E).

In the case of pensioners drawing their pension through public sector banks, payment of family pension at the rate indicated in the Pension Payment Order will be commenced by the paying branch from the first of the month immediately following the month in which the pensioner died, and receipt from the applicant the death certificate, the prescribed application for grant of family pension, the undertaking for refund of excess amount (if any) overpaid, and after verification of the identity of the person entitled to family pension.

Local audit of state pensions paid through public sector banks is to be conducted in the same manner as in the case of audit of Central pensions and the checks mentioned above for the audit of Central pensions have to be exercised in the audit of State pensions also. However, in the case of State pensions, it should be seen that payment is made only upto and including the month of the death of the pensioner.

23.03. Audit of other Central Transactions

The local audit party should also audit other central transactions relating to 'Public Provident Fund', ' Compulsory Deposit Scheme', 'Special Deposit Scheme' etc. maintained in the bank audited and satisfy itself that these transactions are in order.

23.04. Issue of Inspection Report

a) During local audit of the branch of the public sector bank, the omissions, defects and other irregularities noticed in regard to payment of pensions (Central pension and state pension) and other Central transactions should be communicated to it through audit enquiries. The replies to the points raised in the audit enquiries should be discussed with the Manager of the local branch of the bank.

After completion of audit of the link branch concerned, a draft Inspection Report dealing with irregularities noticed in the payment of central pensions and other central transactions should be prepared for all the branches in the district and should be discussed with the Manager of the Link Branch and forwarded to OAD-I Section.

From July, 1987 onwards, a copy of the Inspection Report relating to pensions paid by the Defence Department is endorsed to the Deputy Director of Audit, Defence Services, Allahabad, as well as Director of Audit, Defence Services, New Delhi and the copy of the Inspection Report relating to pensions paid by Railway Department is endorsed to the Director of Audit, Railways, who should pursue the objections till their final settlement.

b) The Inspection Report is to be forwarded to OAD.-I Section by the local audit party.

23.05. High Risk Areas of Audit-Cash Outflows viz. GPF, Pension etc.

As you are aware several state Government have taken over entitlement functions relating to GPF, Pension etc. of the state Govt. employee that were at one time

undertaken by the office of Accountant General. In view of the serious irregularities/misappropriation that I have come to the notice recently in regard to cash flow like GPF withdrawals, CAG has ordered as under "Areas / functions that involve cash outflow which were originally with Accountant General but taken over by the State Government later (GPF, Pension etc) should ipso facto be defined as high risk areas for audit. These areas should invariably be audited in the DDO offices selected for audit." Also, while carrying out CCO based/departments centric audits it should be seen what internal control exists within the departments in regard to cash outflows. To that extent the order an CCO based audit issued vide Headquarters Circular/D.O. No.199- Audit (AP)/16-2006 dated 2nd July 2009 may be treated as amplified. These instructions may be kept in mind while finalizing the audit plan.

CHAPTER-XXIV

PROCESS OF AUDIT OF GUJARAT HOUSING BOARD

24.01. INTRODUCTORY

(i) The erstwhile Bombay Housing Board was dissolved and two regional boards (Viz., Maharashtra Housing Board and Gujarat Housing Board) were constituted under the Bombay Housing Board, (Dissolution and Reconstitution) Order, 1960. Vide Government of Bombay, Labour and Social Welfare Department letter No. STR-1060-F dated 28-4-1960. In addition to the Gujarat Housing Board, the Saurashtra Housing Board, Act 1954, continued to function in Gujarat Region upto 31-08-1961. With effect from 01-09-1961, a new Board called Gujarat Housing Board was constituted under the Gujarat Housing Board Act, 1961, with a view to deal with and satisfy the need of housing accommodation and the two Board referred to above were dissolved from that date. The assets and liabilities of the former Bombay Housing Board were shared by the two regional Board in accordance with the provisions in paragraphs 5 to 9 of the Bombay Housing Board, (Dissolution and Reconstitution order, 1960.)

(ii) The rules, regulations and bye laws made under the Bombay Housing Board Act, 1948 and in force immediately before 1-9-1961 to the extent they are not inconsistent with the provision of the Gujarat Housing Board Act, 1961 are deemed to be made under the Gujarat Housing Board Act, 1961- in relation to the whole of the State and will continue to be in force until changed or modified. (Vide Section 66(4) of Gujarat Housing Board Act, 1961).

(iii) The Board consists of. Chairman and six members appointed, by the State Governments.

(iv) The Board has its own Accounts Office under an Accounts Officer, who is responsible to the Board for all financial matters. He is also the Internal Auditor of the Board, and is responsible for the proper maintenance of the books of accounts, submission of returns on due dates, safe custody of valuable documents and the proper accounting of the transactions in accordance with the financial rules. -The duties of the Accounts Officer have been prescribed in Regulations, framed under Section 67(c) of the Bombay Housing Board Act.

(v) The PAG/AG, Gujarat, has been appointed as the Auditor of the Board under a directive issued by the State Government, under Section 6 (6) (2) of the Gujarat Housing Board Act, 1961. The Government issued orders in Public Works Department Resolution No. ABE_r1761/17159-A dated 25-10-1962 that the cost of audit staff would be borne by Government by way of subsidy to the Gujarat Housing Board which should meet the cost initially. The approval of the Comptroller and Auditor General of India has also been obtained to undertake the Audit of the accounts of the Board on a consent basis.

24.02. Scope of Audit

Extract of Comptroller and Auditor General's Confidential letters No. 216-CA/61/1965 dated 2-2-1966 and No. 319-Tech. Admn. 1/13-1965 dated 5-2-1966 explaining the scope of audit is reproduced as *Annexure-I* to this Chapter.

24.03. Process of Audit

(i) Under Rule 11 of the Bombay Housing Board Rules, 1949, the Public Works system of accounts has continued to remain in force.

(ii) The works divisions and the offices of Estate Managers render compiled accounts to the Accounts Officer who post them along with monthly accounts of his own including Housing Commissioner's Office in the compilation Register maintained in his office. The entries in the compilation Register form the basis for the preparation of annual accounts by the Accounts officer.

(iii) (a) The audit conducted by Resident Audit Office is partly local and partly concurrent. In respect of offices situated outside Ahmedabad, Central audit is conducted on Works Audit lines supplemented by half-yearly local inspection. The extent of Central audit and the records and registers to be checked during half-yearly local inspections of mofussil offices which have been prescribed by the Comptroller and Auditor General are indicated in the Memo of Local Secret instructions. During local inspections besides general review of cash book, a detailed check of the month's transactions is also to be conducted.

(b) In respect of offices located in Ahmedabad, audit is conducted concurrently. Accordingly, while conducting audit of the accounts and vouchers with reference to the quantum prescribed by the Comptroller and Auditor General, the corresponding initial records maintained in the local offices (viz. Measurement Books, Deposit Registers, Register of Advances, Contractor's ledger etc.,) are also checked. Thus, in respect of contractor's bills marked for audit, the corresponding Measurement Books are checked with a view to seeing that the quantities shown in the bills are correctly worked out. Contractor's ledgers are examined to see that they correctly incorporate the payment and adjustments made in the vouchers marked for audit and that recoveries of securities find a place in the Register of Deposits. Besides, the various accounts records and registers of the local offices are checked at periodical intervals prescribed in this regard. The Resident Audit Officer should select the registers and accounts records to be audited each month so that all registers and accounts records are covered every half year. The concurrent audit and review of the accounts of the offices in Ahmedabad should be conducted in the premises of that office itself, so that the initial records are readily forthcoming for scrutiny. The auditor should give prior intimation about the measurement books required so that these could be obtained by the local divisions from the sub divisions.

(c) Suitable selection Registers and Programme books should be maintained in order to ensure that prescribed audit checks and review are exercised regularly.

(d) Audit of rent receipts, and audit of C. P. F. accounts is also conducted by Resident Audit Office to the prescribed extent. The subsidies sanctioned by State Government to Gujarat Housing Board are also certified by Resident Audit Office after check with initial records.

(e) While routine checks are exercised by internal audit (i. e. Accounts Officers) of the Board, the audit by resident Audit Office is conducted on ECPA lines (see para 15.02)

with emphasis on important audit checks regarding utilisation of loans, investment of surplus funds, delays in construction and allotment of tenements, review of housing scheme etc It should also be seen how far internal audit is effective.

(f) The objection books and works audit registers are maintained by the Accounts Officer of the Board. These are checked every month in Resident Audit Office according to approved quantum. The Establishment and Gazetted audit registers which are also maintained by the Accounts Officer are checked along with Establishment and Gazetted audit.

Annexure-I

(Referred to in paragraph 24.02)

Extracts of paras 2, 5, and 6 of Comptroller and Auditor General's Confidential letter No. 216-CA/61-1965 dt. 2-2-1966.

The Public Commercial undertakings have generally a well organised financial and accounting organisation in some cases under officers of the Indian Audit and Accounts Department, lent to them. Further, in many cases, as in the case of Government Companies, the accounts of the concerns are audited by Chartered Accountants appointed on the recommendation of the Comptroller and Auditor General. Where a well organised financial and accounting organisation exists and a system of efficient internal audit operates, our audit need hardly go over the same field covered by internal audit and apply the percentages of audit checks on various types of transactions as is done in the case of normal Government transactions. So far as the routine audit checks are concerned, that function can and should adequately be performed by the Accounting department and the internal Audit Department of the organisation. Our audit cannot be a substitute for effective internal audit. It has to be seen, however, that internal audit adequately covers the entire field, that it is functioning effectively, that its reports are properly considered at the appropriate level and that necessary action is taken on them. In such cases routine audit by our department, if taken up at all will be a negligible quantum. The main purpose in such cases would be to see how far the internal checks operate effectively. Our audit should restrict itself to efficiency-cum-propriety audit the broad principles in this regard having been already laid down in the Manual of Standing Orders (Tech.).

At present the audit of these commercial undertakings are conducted by resident audit parties and or peripatetic audit parties subject to appropriate gazetted supervision. The audit party generally consists of an Accountant and two or more Upper Division Clerks. The clerks are generally employed in conducting the routine audit checks while the Accountant and the gazetted officer, besides supervising the work of the clerks devote their time and every on efficiency-cum propriety audit. As it is considered that routine audit checks in these cases are either unnecessary or should be of a negligible quantum, the employment of Upper Division Clerks in the case of these audit would become necessary or at best only a fraction of the numbers at present so employed will be necessary. If it is considered necessary that in order to make our efficiency-cum-propriety audit more effective the parties should be strengthened by additional Accountants, that change can no doubt be effected.

In this connection, it may be pointed out that we recover audit fees for conducting the audit of various organisations. Generally, it is seen that the quantum of audit fees that we recover is appreciably more than the amount which would have been payable to Chartered Accountants if the audit had been entrusted to them. It is no doubt true that the purpose and quality of our audit are not the same as that conducted by the Chartered Accountants and comparison of audit fees payable for dissimilar pieces of work will neither be fair nor accurate. But having regard to the reorientation of audit as

indicated above, it is felt that the quantum of audit fees that- will be recoverable will be smaller. This however will be an incidental result of reorientation of our audit in the case of these organisations.

Confidential letter No. 319-Tech. Admn.I/13-1965 dated 5-2-1966 from the Comptroller and Auditor General of India, New Delhi.

I am to invite a reference to this office confidential circular letter No. 216-CA/61-65, dated 2-2-1966 regarding Scope and extent of audit of the accounts of commercial undertakings in the public Sectors. The scope and extent of audit of the accounts of Autonomous Bodies set up under the parliamentary/State Legislation undertaken by the IA&AD either on a consent .basis or by virtue of provisions in the enactments, entrusting the audit to the Comptroller and Auditor General e. g. coir Board, Indian Institutes of Technology, State Khadi and Village Industries Board, State Housing Board, Coffee Board, Tea Board, Dock Labour Board at Calcutta, Employees State Insurance Corporation, Employees, Provident Fund (Regional P. F. Accounts) etc., have also been under consideration. It has been decided that the principles enunciated in paras 2, 5 and 6 cited above, should be applied in the audit of the accounts of the Autonomous Bodies as well.

APPENDIX-I

CALENDAR OF RETURNS

(Referred in to Paragraph 2.05)

Sl.No.	Name of Return	To whom due	When due	Authority
PART I				
DAILY				
1.	Attendance Register	B.O.	Daily	Manual of Office procedure
WEEKLY				
1	Calendar of returns	B.O.	Monday	Manual of office procedure
2	General Inward Register	B.O.	Monday	O.O. No. T.M. 16 dtd 11.07.1960 & T.M./29 dtd Nil Sept. 1962
3	Register of letters received from Govt. of Gujarat	B.O.	Monday	O.O. No. T.M. 16 dtd 11.07.1960
4	Register of D.O. letters	B.O.	Monday	O.O. No. T.M. 16 dtd. 11.07.1960
5	Register of Telegram / Telex/Fax/Email	B.O.	Monday	O.O. No. T.M. 16 dtd. 11.07.1960
6	Registers of letters received from Govt. of India	B.O.	Monday	O.O. No. T.M. 16 dtd. 11.07.1960
7	Register of letters received from CAG	B.O.	Monday	O.O. No. T.M. 16 dtd. 11.07.1960
8	Register of letters received from other sections	B.O.	Monday	O.O. No. T.M. 16 dtd. 11.07.1960
9	Register of letters received from A.G./DAG	B.O.	Monday	O.O. No. T.M. 16 dtd. 11.07.1960
10	Progress-cum-Arrears Report Register	B.O./DAG	Monday	O.O. No. T.M. 13 dtd. 13.02.1962
11	Complaint Register	B.O.	Monday	O.O.No.PA/AG/4dtd. 2.7.1967
12	Register of watching receipts of Diaries from OAD field parties	B.O.	Monday	OAD Manual
13	Register of T.A. Bills	B.O.	Monday	A.G.'s order dtd. 12.2.
14	Hindi Register	B.O.	Monday	
15	Confidential Register	B.O.	Monday	O.O. No. TM/6 dtd. 11.7.1960
16	Register of notes received from Sr.DAG/ DAG/AG	B.O.	Monday	M.S.O.(A) TM 286 Vol.II dtd. 11.7.83

17	Register of U.O.R.	B.O.	Monday	M.S.O.(A) TM 286 Vol.II dtd. 11.7.83
18	Register of office orders issued	B.O.	Monday	M.S.O.(A) TM 286 Vol.II dtd. 11.7.83
19	Register of issuance of SAR	B.O.	Monday	M.S.O.(A) TM 286 Vol.II dtd. 11.7.83
20	Register of Data Bank of purchases/purchase contracts	B.O.	1 st Monday	APM Circular No. 19 dtd. 8.14.99
Fortnightly				
1.	Outward Register (Hindi and English)	B.O.	1 st and 16 th	O.O. No. T.M. 13 dtd. 17.2.1962
2.	Transit Register for inter-sectional correspondence	B.O.	2 nd and 16 th	O.O. No. T.M.57 dtd. 15.1.1963
3.	Register of objections raised by Director of Inspection	B.O.	15 th & 30 th	I.T.A. dtd. 7.9.1980
4.	Register of Pending cases	B.O.	5 th & 20 th	O.O. No. TM 108 dtd. 1.1.1966
5.	Register of Issuance of SAR	DAG	15 th & 30 th	DAG(I/c)'s orders dtd. 30.8.2005
MONTHLY				
1	Calendar of Returns	D.A.G.	1 st Monday	Manual of Office Procedure
2	Sectional Duty List Register	B.O.	5 th	O.O. No.TM/29/Misc 13 dtd. 7.14.1960
3	Casual Leave Register	B.O.	5 th	OAD Manual
4	Closing of Attendance Register	B.O.	5 th	Manual of Office procedure
5	Departmental Note Book	B.O.	5 th	O.O. No.TM/29/19 dtd. 16.12.1960
6	Register of Dictionary of References	B.O.	5 th	O.O. No. T.M. 19 dtd. 16.12.1960
7	Register of statistics	B.O.	10 th	O.O. No. T.M. 87 dtd. 31/12/1964
8	Register of Pending cases	B.O.	5 th	O.O. No. T.M. 108 dtd. 1/11/1966
9	Register of files	B.O.	5 th	O.O. No. T.M. 108 dtd. 15.6.1967
10	Register of Library	B.O.	5 th	A.G. A'bad's letter No. 11.01.1966
11	Register of Complaints	B.O.	5 th	O.O.No. PA/AG/4 dtd. 2.7.1967 & DAG's orders dtd. 11.12.1997
12	Register of press clippings	DAG	5 th	ECPA Circular dtd. 9.9.2005

13	Register of General orders/circular issued	B.O.	10 th	O.O. No. TM/45 dtd. 3.5.1960
14	Register for marking sections by PAG/AG for inspection by Group Supervisory Officer	A.G./PAG	5 th	O.O. No. TM 6 dtd. 27.12.1986
15	Register of NIL IRs	B.O./DAG	10 th	CAG DO 172 Insp. 336/96 dtd. 11.6.1997
16	Register of watching the Receipt and issuance of IRs	DAG	7 th	O.O.No.APM/5(5) dtd. 4.12.1995
17	Register of watching of action taken by Admn. Dept. On recommendation of PAC meeting	B.O.	15 th	O.O. No. AAIH/ 15061 - 62 dtd. 5.9.1967 & O.O. No.AR/136 dtd. 5.1.1996
18	Complaints received from Sr.A.O./ DAG/ Sr.DAG/ PAG/AG	B.O.	5 th	O.O.No. ITA dtd. 18.12.1971
19	Register of common irregularities noticed during local audit	B.O.	5 th	O.O.No. ITA dtd. 18.12.1971
20	Progress Register of Inspection Reports	B.O./DAG	5 th	M.S.O.(T) Vol.V
21	Register of Defalcation & Financial Irregularities	B.O./DAG	5 th	O.O. No. AA/61-62 dtd. 28.7.1962
22	PDP Register	B.O./DAG	5 th	O.O. No. AA/61-62 dtd. 28.7.1962
23	Register in respect of special points to be taken during local audit	B.O.	5 th	O.O.No.5 dtd. 14.2.1992
24	Register of court cases	B.O.	5 th	A.M. Sn. O.O. No. 5 dtd. 30.8.1983
25	Register of Objection book	B.O./DAG	5 th	As per Manual
26	Register of Issuance of SAR	AG	15 th	DAG's orders dtd. 30.8.2005
27	Register of watching amounts under objection waived by PAG/AG Office	B.O	5 th	Para 808 of M.S.O.(T)
28	Register of Data Bank of purchases/ purchase contracts	B.O.	1 st	APM Circular No. 19 dtd. 8.14.99
29	Register of watching cases reported to CAG	B.O.	5 th	Minutes of A.G. dtd. 8.5.1994

30	Register of watching receipt of store and stock accounts	B.O.	5 th	DAG's orders in file No. OAD-I/28(8)
31	Register of special points to be seen during next local audit	B.O.	5 th	A.M. O.O. No. 5 dtd. 30.8.1983
32	Register of PLA Paras	B.O.	5 th	APM Circular dtd. 5.6.2002
33	Register of AC/DC Bills Para	B.O.	5 th	-do-
34	Register of Misappropriation cases paras	B.O.	5 th	-do-
35	Progress-cum Arrears	DAG	Ist Monday	Manual of Office Procedure
36	Correction to OAD Manual	B.O.	5 th	-do-
37	Register of write off	B.O.	5 th	O.O.No.TM/18 dtd. 24.5.1962
38	Register of watching cases reported to Govt.	B.O.	5 th	OAD-II/ O.O. No.17 dtd. 1.4.1964
39	Audit fee Register	DAG	5 th	DAG's orders dtd. 19.8.1964
40	Register of Omnibus paras	DAG	10 th	DAG's orders dtd. 19.5.1965
41	Register of Paras likely to find a place in Audit Report	B.O.	15 th	A.A. Sn. O.O. dtd. 17.5.1965
42	Register of cases of irregular utilisation of central assistance by State Govt. Depts Noticed during local audit	B.O.	15 th	DAG's orders dtd. 14.5.1965 in file OAD-II/28(42)
QUARTERLY				
1	Register of files	DAG	7 th April, July, Oct. & Jan.	T.M. O.O. No. 148 dtd. 15.6.1967
2	Auditors Note Book	B.O.	15 th April, July, Oct. & Jan.	T.M.(C)/29/19 dtd. 16.12.1960 & TM/29 /6 dtd. 18/9/1961
3	Register of IRs issued during the quarter for review by PAG	A.G./PAG	8 th May, Aug, Nov. & Feb	A.G. Sectt. Letter dtd. 15.3.1991
4	Register of Press clippings	A.G./PAG	5 th March, June, Sept. & Dec.	ECPA order dtd. 9/9/2005

5	AAOs note book	B.O.	15 th April, July, Oct. & Jan	T.M.(C)/29/19 dtd. 16.12.1960 & TM/29/6 dtd. 18/9/1961
6	Audit Note book	B.O.	15 th April, July, Oct. & Jan	TM©/29/19 dtd. 16.12.60 & 18.9.1960
HALF YEARLY				
1	Register of sectional duty list	D.A.G.	5 th June & Dec	T.M. O.O. No. 29/ Misc / 18 dtd. 7.14.1960
PART-II				
MONTHLY				
1	Monthly state of work arrear report	PAG/A.G.	20 th	As per Para 28 of MSO(T)
3	Monthly progress report in respect of action taken by Administrative Departments on the recommendation of PAC	AR	5 th	As per para 28 of M.S.O.(T)
QUARTERLY				
1	Progress report of objections raised by Director of Inspection	I.T.A.	10 th April, July, Oct. & Jan	O.O. No. AM/5/dtd. 14.2.1992
2	Progress Report on revision/updating of local manuals by field office	CAG	15 th April, July, Oct. & Jan	CAG's letter No. 692/O&M/97-99/II dtd. 8.7.1988
3	Quarterly Report on improvement in quality of audit results	AG/PAG	15 th April, July, Oct. & Jan	A.M. Cir. 21 dtd. 22.2.1994
4	Quarterly state of work arrear report	AG /PAG	30 th April, July, Oct. & Jan	A.P.M. O.O. No.4 dtd. 9.7.1995
5	Examination of Balance sheet of commercial concerns where Govt. made investment in shares of non Govt. companies	Pr. AG (Audit- II) A'bad Sr. A.O. /HQ commercial wing	15 th April, July, Oct. & Jan	T.M. No. 45-48 dtd. 4.14.1974
6	Quarterly Progress report in respect of use of Hindi	Hindi (Cell)	5 th April, July, Oct. & Jan	
7	To monitor the progress of audit of certification of	CAG	10 th April, July, Oct. & Jan	CAG's letter No.3/Rep/ AB/ 360-2000/ dtd. 8.1.2001

	Annual Accounts of all Autonomous Bodies whose audited accounts/ SARs are placed before State Legislature/ Parliament			
8	Quarterly Progress Report	CAG	15 th April July, Oct. and Jan.	CAG's letter No 254/WR/Co-ord/162-2012 dated 12-07-2012
9	Supervision by Group Officer of field Audit Party	CAG	15 th April July, Oct. and Jan.	CAG's Circular No-01/PPG/2013 dated 25-09-2013
HALF YEARLY				
1	Statement of outstanding objection for more than six months	Director of Accounts & Treasuries, Administrative Department of Govt. of Gujarat & Ministry of Govt. of India	15 th May & Nov.	O.O. No. 32 dtd. 8.11.1968 of T.M.
2	Half Yearly statement/ reports on cases of Fraud and Corruption	CAG	15 th April & Oct..	CAG letter No. 126/Audit/(AP)/1-2004 dtd. 6.9.2006 & 761-Rep(S)2006-07 dtd. 25.6.2007
3	Half yearly progress Report of Implementation Annual Audit Plan	CAG	7 th April and 7 th October	CAG's letter no. WR/Co-ord/Audit Plan/302-2013 dated 02-05-2014
YEARLY				
1	Audit Plan	CAG	15 th Feb	CAG Circular No. 1/Audit Planning/98 dtd. 6.2.1998
2	Material for Activity Report of IA & AD	CAG	15 th May	CAG letter No.283/Audit(JMT&AR)/ 213-97 dtd. 3.4.1998
3	Ranking the performance of audit office	CAG	31 st July	CAG's letter No. 207/Audit/CAP/16/2004 dtd. 22.11.2004
4	Performance Report of SAI India	CAG	31 th July	CAG letter no 1074-1209/Per. Rep./SMU/2012-13/38-2013 dated 12-07-2013

APPENDIX-II

(Referred to in para 3.01(i) and 3.05)

DEMARCATION OF DUTIES FOR PERSONNEL IN INSPECTION PARTIES.

Following is a broad outline of responsibilities and duties of various categories of personnel in Civil Audit Offices. The Sr. Audit Officer in charge of the Inspection Party is not however precluded from making certain changes to be indicated by him in writing in the distribution suggested keeping in view the suitability of the individual official for the type of work in hand.

1. Local Audit of Civil Offices

A. Sr. Audit Officers

Duties and responsibilities presently assigned elsewhere in the manual are not only important but also sufficiently exhaustive. Review of the schemes executed in a department will in fact be time consuming. Further the Inspecting Officer has to perform the co-ordinating functions to achieve over-all efficiency in performance.

B. Assistant Audit Officer

- (i) Audit of the accounts of receipts;
- (ii) Audit of the accounts of stores;
- (iii) Examination of the cash book;
- (iv) Examination of vouchers for the test months which were submitted to central audit and made available to the party by the headquarters, with original records, contract documents etc.
- (v) Audit of all vouchers not submitted to central audit;
- (vi) Verification of drawals and deposits into treasury with reference to treasury records.
- (vii) Examination of the special points marked for special investigation by central audit.
- (viii) Audit of works expenditure;
- (ix) Accounts of stores, equipments etc. received under various foreign aid programme;
- (x) Departmental inspection reports

C. Senior of the two auditors:

- (i) Examination of service books, service rolls broad sheets and ledgers in respect of PF accounts of Group D (now MTS) staff etc.
- (ii) Obtaining files containing important rules / orders issued by Government in respect of the institution under local audit and matters dealt with by it with a view to study them and also take notes from the Dictionary of References maintained;
- (iii) Check of disposal of previous inspection reports;
- (iv) Audit (triennial) of taccavi accounts;
- (v) Audit of expenditure by State Government in connection with large gatherings of political organisations;
- (vi) Establishment pay bills;
- (vii) Travelling allowance bills;
- (viii) Register of undisbursed pay and allowances;
- (ix) Register of advances;
- (x) Property accounts i.e. immovable property accounts like land, buildings and other assets.

D. Junior of the two auditors:

- (i) Dead-stock register;
- (ii) Register of empties;
- (iii) Stamp account;
- (iv) Register of deposits;
- (v) Log books and diaries of Government vehicles;
- (vi) Register of stationery;
- (vii) Register of uniforms;
- (viii) Register of books and periodicals;
- (ix) PF Accounts of Group D (Now MTS) employees.

2. The structure of the civil audit parties in certain offices is two AAO and one auditor, while the gazetted supervision remains the same. In such a case, the distribution of work could be as under:

A. Sr. Audit Officer:

Same as those in para 1(A) above.

B. Assistant. Audit Officer:

Items (i), (ii), (iii), (iv), (v), (vi), (vii), (viii), (ix) and (x) under "1(B) AAO ", (i), (ii), (iii), (iv), (v), (vi), (vii), (viii), (ix) and (x) under "(C) Senior of the two Auditors" in para 1(C) above.

APPENDIX-III

(Referred to in para 4.34 of Chapter 4)

Procedural instructions for the Audit of Contracts and Agreements

(Vide Comptroller & Auditor General's letter No.1521-Admn.I/87/59 dated 12-5-1960)

1. Audit of contracts and contractor's bills, whether the contracts are placed by a Central Purchase Agency or by Departments, generally fall under the following heads:

- (i) Audit of contracts and agreements by themselves and with reference to indents and tenders.
- (ii) Audit of payments of contractor's bills against contracts, purchase orders and agreements.
- (iii) Audit and Accounting of stores, equipments, etc. purchased against such contracts by the consignee.

2. Audit of Contracts and Agreements, Tenders etc.:

The general check to be exercised in local audit are indicated in para 3.7.19 of M.S.O.(Audit)Second Edition, 2002. Other checks are detailed below:

- (i) In scrutinising an Acceptance of Tender it should be seen:
 - a) That the particulars regarding quantity and rates are furnished and the prices stipulated are firm. Particulars of the contracts providing price variation clause or provisional rates, should be sent to local audit for further examination.
 - b) That there is no omission of any important clause, e.g. inspection of stores, date and place of delivery, despatch instructions, name of consignee, etc.
 - c) That it is signed by an authority who is competent to enter into the contract. In case the signature on the order is that of an authority who is not competent to enter into the contract, a certificate to the effect that the purchase has been approved by competent authority, is recorded therein, mentioning also the designation of the authority whose approval has been obtained.
 - d) That, if the Acceptance of Tender provides for payment to a party other than the contracting firm, a power of Attorney is already registered on the books of the office;
 - e) The provision for the payment of sales tax, excise duty, etc. should be checked with reference to the instructions issued by the Government from time to time. **Vague** provisions, such as, Sales Tax will be paid, if legally **liveable** should be objected to and the contracting officers asked to state in definite terms whether Sales Tax, excise duty, etc. are payable and if so, at what rate and on what amount;
 - f) Acceptance of tenders placed in the later part of a financial year should be specially scrutinised, and tendency to rush of expenditure towards the close of the financial year should be brought to notice. Requests for despatch of heavy goods by passenger train, at a freight cost which disproportionate to the value of the materials, should be reported to the Local Audit party, for detailed examination. In such cases, the party should see whether a higher rate was also paid for urgent delivery and whether the circumstances really justified the extra expenditure.
- (ii) In conducting audit of sanctions the broad principles of financial propriety enunciated in Paras 2.2.46 and 2.2.47 of M.S.O. (Audit) Second Edition, 2002 should be borne in mind. In cases of doubt regarding the necessity or the propriety of expenditure sanctioned, the original papers leading to the issue of the sanction, should be called for

and scrutinised in Central Audit. The cases may be sent with a brief note to Local Audit Party and if the Accountant General considers this necessary to the E.P.A.(Section) for further examination.

- (iii) It should further be seen that --
 - (a) All requirements pointed out at the time of pre-scrutiny (if carried out) have been complied with or replied to the satisfaction of audit;
 - (b) That the contract has not been made by or on behalf of a minor;
 - (c) That the security deposit in the appropriate form and of the correct amount has been lodged within the period stipulated in the contract and that in the event of default, penalties leviable under the conditions of the contract have been enforced;
 - (d) That the contract has been signed for and on behalf of the President of India, Governor of a State or Chairman, etc. of a quasi-public body as the case may be;
 - (e) That all the conditions and requirements printed on the contract form have been complied with;
 - (f) If the contract has been entered into with a firm, each one of the partners has signed all the documents constituting the contract and if any partner be absent, the forms are signed by his duly constituted attorney.
- (iv) All contracts and agreements required to be audited, should be reviewed by AAO and submitted to the Gazetted Officer for further review. Before auditing purchase bills, the Branch Officer should satisfy himself that the sanctions and agreements were properly audited and bear suitable endorsement of audit and review.
- (v) Cases of the type mentioned below may, if necessary, be scrutinised carefully. Points if any referred to by E.P.A.(HQrs) for scrutiny / analysis should be specially looked into.
 - (a) Inclusion of any new item of expenditure not originally contemplated in a contract.
 - (b) Extension of the date of delivery in contracts where higher prices have been allowed on account of early delivery of stores.
 - (c) Compensation allowed to firms in respect of contracts.
 - (d) Any extraordinary stipulation in a contract, even if it is sanctioned by Government etc.
 - (e) All contracts on cost-plus-profit basis
 - (f) All contracts with private firms to act as Government Stockists.
 - (g) All sanctions for ex-gratia payments.

3. Audit of Bills for the Supply of Stores:

Besides the checks prescribed in para 3.1.20 of M.S.O.(Audit), 2nd Edition-2002 it should be seen while auditing bills of contractors that --

- (a) The purchase of stores has been sanctioned by the competent authority.
- (b) All purchases of stores are made in accordance with the instructions laid down by Government with special reference to the rule that no purchase which required the sanction of a superior financial authority is sanctioned by lower authority in instalments;
- (c) The rates shown in the bills agree with those in the Agreements;

- (d) When the contract stipulates inspection in stages, e.g. at the time of manufacture or after erection at site the necessary inspection certificates are furnished with the bills.
- (e) A claim for railway freight, insurance charges, etc. when the order is F.O.R. place of despatch is duly supported by Cash Receipts, irrespective of their amounts;
- (f) When a contract is placed on the basis of rates prevailing in the market on the date of receipt of the order by the firm or on the day of supply, such rates are verified with the intimation of market rates received from the suppliers. These rates should be confirmed by the Purchasing Officers.
When the contract stipulates different periods, the date of despatch/delivery of stores should be checked independently.
- (g) When a contract has been placed for stores which are obtained from countries outside India, no payment on account of customs duty or increases in custom duty is made, except under the provisions of the contract, or under orders of competent authority;
- (h) Whether any discrepancy or deficiency has been recorded by the consignee in his receipt of certificate supporting the balance of 10% or final 100% bill in cases where advance payment or part-payment or part-payment of 90% in vogue.
- (i) The stores have been delivered within the delivery periods and that late delivery, if any has been regularised by the sanction of the competent authority.

4. Local Audit of Purchase Bills, Contracts, etc.

The following items may be examined in local audit:

- a) Acceptance of tender including Rate / Running contracts, Supply order etc.
- b) Amendments against acceptances of tenders etc.
- c) Contracts placed in India direct on suppliers in U.K., U.S.A. and other overseas countries;
- d) Contracts placed by Indian Missions and Trade Commissioners abroad other than those in U.K., and U.S.A.; (in the case of U.K. and U.S.A., the I.S.D. London and I.S.M., Washington have their own procedure for procurement of stores required and payment thereof.)
- e) Timber purchase orders;
- f) Office orders etc. issued by the purchase organisations on the subject of Sales Tax, Excise Duty etc.
- g) Disposal Contracts;
- h) Arbitration cases etc.

APPENDIX-IV
(Referred to in para 8.19)
MAINTENANCE OF ACCOUNTS OF CASH AND STORES
QUESTIONNAIRE

To be submitted along with every inspection report on civil offices.

(Please give reference to Para No. in the inspection report / Test Audit Notes or to special notes if any against each item)

1. Is there an internal audit machinery working in the Department and how effective its functioning is? Whether periodical inspection of the accounts of the office is conducted by internal audit wing / Controlling Officer.

2. Whether all transactions of receipts and payments are correctly recorded in the cash book in the prescribed form strictly in the order of occurrence and on the date they actually take place.

3. Whether the cash book is closed regularly giving an analysis of the cash balance and the totals / balances worked out correctly.

Where subsidiary cash books are maintained whether the balances are carried over to the main cash book daily and correctly.

4. Whether there is evidence in the cash book of verification of all entries made therein regarding receipts, payments and balances and the balances of cash chest are counted at least once in a month and duly certified by the Head of the Office.

(a) Whether the arithmetical accuracy is checked by any one other than the writer of the cash book.

5. Whether all receipts of cash as shown in the counter foil of receipt books as well as cash received from the treasury on bills, cheques, cash orders, or Reserve Bank Drafts are traceable in the Cash Book under proper heads and with correct particulars.

6. Whether the demand draft obtained from treasuries / banks have been entered in the Register of valuables and whether their disposals are watched promptly.

7. Whether the receipt books (used and unused) and stock register of receipt books have been kept under the safe custody of the Head of the Office.

8. Whether the pages of receipts books have been numbered and certificate of count of pages is recorded, a proper stock account is kept of all receipt books and the stock thereof is periodically verified.

9. Whether the foils of cancelled receipts are available in the receipt books.

(i) Whether more than one receipt books is issued to an individual officer at a time.

(ii) Whether used book is returned when fresh one is issued.

(iii) Whether physical verification of stock of receipt books is conducted.

10. Whether remittances are made without undue delay and are supported by receipted challans.

11. When the number of remittances made in a month is more than ten and the total amount involved therein exceeds ₹1000 whether a consolidated receipt has been obtained from the treasury and compared with the entries in the cash book.

12. Whether remittances corresponding to the receipts are traceable in all cases. Whether cross references of receipts are given in the cash book when remittances are made.

13. Whether all payments are supported by vouchers.
14. Whether the sub-vouchers, payee's receipts etc. in support of payments are cancelled and retained in the office.
15. Whether slips in TR 45 submitted to Treasury along with the bills have been received back and kept in the office.
16. In the case of endorsed contingent bills whether an advice in form TR 105 is issued and a copy of the same received back and kept in the office.
17. Whether there are any cases of withdrawal of money far in advance and or in excess of requirements.
18. Whether there is any case of withdrawal of money and deposit in the bank without sanction of Government and whether it results in locking up of Government money.
19. Whether there is a tendency to keep unduly large cash balance in hand.
20. Whether private cash is mixed up with regular cash balance of Government.
21. Whether the arrear claims have been noted against the original claims and attested.
22. Whether the leave taken / surrendered have been noted in the service books and leave accounts of the persons concerned.
23. Whether the persons dealing with cash have furnished sufficient fidelity insurance.
24. Whether office copies of pay bills have been checked with referenced to the vouchers received from headquarters, sanctioned strength of staff, attendance registers, **acquaintance** rolls, service books leave accounts etc. and found correct.
25. Whether the Audit Party had noticed any of the irregularities mentioned below. If so give details / reference to para in the inspection report.
 - (i) Erasures, over writings, interpolations, alterations and unattested corrections in figures, pass orders etc. in account books and registers, bill presented at treasuries, invoices, sale bills, receipts etc.
 - (ii) Removal of pages from account books and registers.
 - (iii) Tampering in totals and carry forward of totals, especially in cash books and stock books.
 - (iv) Errors in totalling in bills.
 - (v) Errors in carry over of figures from subsidiary registers to main registers.
 - (vi) Delay in disbursement of moneys drawn from treasury to payees (including money recovered / against court attachment, undisbursed salaries etc.).
 - (vii) Persistent delay in the submission of invoices and countersigned detailed bills to audit.
 - (viii) Tampering of figures in challans.
 - (ix) Payments made on duplicate invoices, absence of proper references in invoices to entry in stock books and pay orders made on vouchers without specifying the amount.
 - (x) Bills presented at the treasury without entry in the Treasury bill book, interpolation and alteration of entries in the treasury bill book.
 - a) Whether more than one bill book is used at a time for transaction with one treasury.
 - b) Whether the bill books are kept in the personal custody of the drawing officer.
 - (xi) Whether items of stores work etc. paid for in bills are traceable in the relevant registers viz. stock accounts work registers, measurement books etc.

(xii) Signing office copies of bills in full, difference between the entries in the office copies and fair copies of bills in regard to the name of payee endorsee etc. or absence of office copies.

(xiii) Non-reconciliation of departmental figures with those of the treasury / Accountant General in regard to P.D. Accounts, whether the balance in the treasury pass book agrees with balance as shown in the accounts maintained by the office and whether prompt action has been taken to get the balance reconciled. When repayments of moneys deposited are made whether necessary notings are made against the original entries in the register.

26. In the case of purchase of stores, whether the rates paid agree with those shown in the contract or agreement made for the supply of stores.

27. Whether there are any omissions to furnish certificates of quality and quantity by the passing and receiving Government Servants before payment is made.

28. Whether the stock account is maintained in the prescribed form.

29. Whether there are any omission in entering the stores purchased or otherwise obtained in the register concerned.

30. Whether issues are supported by proper requisitions / indents and acknowledgements from the recipients.

31. Whether periodical verification of stock is conducted by responsible officer other than the custodian of stores. Whether there is any accumulation of a stock resulting in locking up of capital.

32. Whether there are any omission to attest the transactions / balances in the stock registers.

33. In the case of loans and advance paid from the office whether proper accounts have been kept and recoveries watched closely.

34. In the case of grants whether the utilisation has been watched closely and unutilised grants got refunded.

35. In the case of revenue earning items (such as building to be let out, usufructs etc.) whether there is any lapse on the part of the Department in the collection of revenue realisable and whether the prescribed procedure has been followed in auctions etc.

36. Whether the D.C.B. Statements are prepared correctly and whether adequate action has been taken to collect the arrears.

37. Whether the log books of vehicle have been reviewed every month to see whether there was any misuse of petrol or idling / misuse of vehicles.

38. Whether a register of Audit observations received from the PAG/AG is maintained and replies to Audit observations are sent promptly.

39. Whether the controlling officers have discharged their duties properly while countersigning TA bills.

Camp :

Date : Assistant Audit Officer

Supervising Officer

OAD Party No. :

FORM-I
Register of Local Audit

(Vide Para 2.02(i) and item (i) of Annexure I to Chapter 2)

I-Electronic Database for Auditee Profile

Sr No.		
1.	ID No. (Cardex No. given by the Treasury)	
2.	Name of Drawing & Disbursing Officer(DDO)	
3.	Address 1	
4.	Telephone Nos.	
5.	Fax No.	
6.	Telegraphic Address	
7.	E-Mail Address	
8.	Controlling officer / Name of controlling office	
9.	Administrative Department	
10.	Date of opening of the office	
11.	Date of closure of the office	
12.	Reason for closure(Shifting / merger / upgrade / degrade / closure)	
13.	Scheme- 1 implemented and expenditure for last 3 years (Central & State schemes / projects / programmes)	
14.	Scheme- 2 implemented and expenditure for last 3 years (Central & State schemes / projects / programmes)	
15.	Function of office (Objectives & Programmes)	
16.	Major Head Accounts operated-1	

17.	Major Head Accounts operated-2	
18.	Major Head Accounts operated-3	
19.	Expenditure – plan – 2004-05	
20.	Expenditure – Non– plan – 2004-05	
21.	Total- Expenditure – 2004-05	
22.	Expenditure – Plan – 2005-06	
23.	Expenditure – Non– Plan – 2005-06	
24.	Total- Expenditure – 2005-06	
25.	Expenditure – Plan – 2006-07	
26.	Expenditure – Non– Plan – 2006-07	
27.	Total- Expenditure - 2006-07	
28.	Last audited up to	
29.	Date of last audit –From-to	
30.	Party days provided last	
31.	Last programme given to party no.	
32.	Last period of Audit Provided	
33.	Name of Inspecting officer (Last Audit)	
34.	Date of supervision (Last Audit) from to	

FORM-II
Register for Noting Points to be Examined During Local Inspections

(Vide Item (ii) of Annexure I to Chapter 2)

Sl.No	Reference to order file of Inspection Report	Brief narration of the points to be examined at the time of local inspection	Date on which extracts sent to Inspecting Officer	Result of examination	Final disposal
1	2	3	4	5	6

FORM-III (S.Y. 336)

Register for Watching the Receipt and Issue of Inspection Reports

(Vide item (iii) of Annexure I to Chapter 2 and Para.8.05 (10))

Sl. No.	Name of office inspected	Name of Inspecting Officer and Staff	Months up to which the account is now audited	Date of audit		Due date for receipt of Draft Report from the Inspecting Officer	Particulars of reminder issued in case of non-receipt of IR by the due date	Date of receipt of Draft report.
				From	To			
1	2	3	4	5	6	7	8	9

Date of submission to AO / DAG	Date of approval	Date on which sent for type	Date of return from type	Date of issue	Reference to Progress Register	Remarks
10	11	12	13	14	15	16

FORM-IV (S.Y. 328)

Register to Watch Progress in the Settlement of Inspection Report

(Vide Item (iv) of Annexure I to Chapter 2, Para 8.05 (11) and Para 8.11)

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Sl. No.	Name of the unit inspected	Items No. of the Register for watching the Receipt and Issue of Inspection Report	Date of completion of audit	No. & date under which report was issued	Due date of receipt of reply	No. & date of reminders etc.	Date of receipt of 1 st reply.	Date of issue of further audit remarks	Further correspondence	Date of receipt of further replies	Date of issue of further remarks / reminders	Paras outstanding after six months of issue of the	Number of paras in Inspection Report	Date of settlement with reference to file No.	Date of closure of the report with reference to file

FORM-V (SY.338)

(Vide Para 1.06(viii), Item (viii) of Annexure I to Chapter 2, para 7.15 and para 8.05 (11))

(To be printed on open foolscap)

REGISTER FOR WATCHING RECOVERY OF COST OF AUDIT

Sl. No.	Name of body or authority audited	Period of account	Authority for undertaking audit	Dates of audit	No. of days taken	Strength of party with details of leave etc. availed of by the party	Rate of audit fee per day	Authority for fixing audit fees
1	2	3	4	5	6	7	8	9

	Amount of arrears	Total	No. & date of demand note	Amount recovered	No. & date of credit information	AAOs initials	Remarks	
10	11	12	13	14	15	16	17	

FORM-VI

Check Register of Travelling Allowance Bills
(Vide item (ix) of Annexure I to Chapter 2)

Sl. No.	Month of claim	Amount of bill	Date of receipt in section	Date of return establishment
1	2	3	4	5

FORM-VII
Register of Deviation in the Local Audit Programme

(Vide Item(x) of Annexure I to Chapter 2)

Sl.No.	Name of office	Date of audit as per original programme		Nature of deviation	Authority
		From	To		
1	2	3	4	5	6

FORM-VIII

Register of Documents sent to Local Audit Parties for Verification

(Vide Item (xi) of Annexure I to Chapter 2 and 3.08(a))

Sl.No.	Name of institution inspected	Date of commencement of inspection	Date on which programme was intimated to the section	No. and date of letter with which previous IRs and other documents are sent & details of documents received.	Date of completion of audit	Date on which documents were received back from the party and details of documents received	No. of paras communicated IR paras	No. of settled IR paras	Balance paras outstanding	Remarks
1	2	3	4	5	6	7	8	9	10	11

FORM-IX

Memo of Local verification and Settlement of Outstanding paras in Previous Inspection Reports.

(Vide Para 3.29 (iv))

No. of paras outstanding :

No. of paras cleared :

Balance :

Name of institutionPeriod of ReportFile No.

.....

Para No. in Inspection Report	Objection in brief	Action taken by Department or reply furnished by Department	Supervising Officer's, AAOs recommendation for clearing the para	Order of Group Officer	Final Disposal in OAD (Headquarters)
1	2	3	4	5	6

FORM-X
Schedule of Irregularities Settled on Spot

(Vide Para 8.01(ii))

Sl. No.	Nature of irregularity pointed out	Ref. to Audit query / memo	Action suggested by Audit Party	Action taken by department or promised to be taken	For use at the subsequent audit _____ – Result of verification of action promised	Remarks
1	2	3	4	5	6	7

Certified that I have verified all the points in which action was promised to be taken and have satisfied myself that the action taken is adequate. Persistent irregularities have been included in Part I (c) of current report.

Signature of AAO/Supervising Officer

Signature of Head of Institution inspected

Place :

Date:

FORM-XI

(Vide item (v) of Annexure-I of Chapter-2)

Objection Book of the O.A.D. (Headquarters) for the month of, 20.....

Sl.No.	Refer-ence to accounts audited/ office inspected and designation of the officer responsible for clearance of the objection	I.R. No. and para No.	Amount under objection pending recovery					Nature of objection (gist to be given)	Details of correspondence	Details of adjustments		Remarks
			Misappropriation, fraud, defalcation, etc.	Excess payment, loss/short age of stores, etc.	Credit sales	Outstanding advances and loans	Miscellaneous			Month of clearance	Amount	
1	2	3	4	5	6	7	8	9	10	11	12	13

Total of month's objection :		Totals of columns 4 to 8	I certify that I have examined the Objection Book and find it complete in all respects. All cases or items which could be waived under Paragraph 1.1.13 -- have been brought to the notice of the office concerned and order taken.
Add balance from previous month:			
Total :			
Deduct amount adjusted duringas in separate Adjustment Register :			

			Date: Assistant Audit Officer
Add or deduct -- Net adjustment in March final :			
Balance carried forward :			

S.Y. 286-A

FORM-XII

Register of Items of Expenditure and Other Items of Financial Irregularities for Inclusion in the Appropriation Accounts of Government

(Vide item (vi) of Annexure I to Chapter-2 and Para.8.15 (ii))

Sl No.	Name of district or division	Month of account and Voucher No.	Amount	Name of Department	Description of charge or nature of the irregularity	Name and Designation of officer responsible for the irregularity	No. and date of report of Government	Orders of Government	Final remarks passed by the Head of Accounts Office	Whether included in the Appropriation Accounts	Remarks
1	2	3	4	5	6	7	8	9	10	11	12

FORM-XIII

(Vide item (vii) of Annexure-I of Chapter-2 and para 3.21)

Diary of Shri.Assistant Audit Officer / Auditor for the week ending Saturday,
the.....

Date	Day of week and hour of attendance	Name of Department / office inspected	Details of work done

The

Assistant Audit Officer / Auditor

FORM-XIV**Check Register of Weekly Diaries of Shri.Assistant Audit Officer / Auditor**

(Vide item (vii) of Annexure-I of Chapter-2)

Week ending	Holidays, if any, during the week	Date on which Diary is received	Name of office inspected	Period of audit	Number of working days taken up to the end of the week	Time allowed for the audit	Remarks

FORM-XV

Register of Performance- Cum-Selection of IR for Review by AG
(Vide Para 8.06, para 8.21 (ii))

Sl. No.	File No.	Name of Office audited	Name of party	Period of audit	Dates of audit & date of issue of IR	Name of Inspecting Officer & dates of supervision	Name of members of the party	Details of Part II Paras				Whether selected by AG	Date of submission to AG	Remarks of AG, if any.
								Para No.	Objection in brief with category (Pl see Para.8.08 (i))	Amount (₹. in lakh)	Name of official who contributed the para			
1	2	3	4	5	6	7	8	9				10	11	12

FORM-XVI

Register of Potential Draft Paras
(Vide Item (xii) of the Annexure I to Chapter 2)

Sl. No.	Name of office / division / range	File No. and Para No.	Name of assessee	Subject in brief	Tax effect / amount involved in this para	No. and date of letter in which objection sent	Date of subsequent correspondence	No. and date of reply	No. and date of letter under which Statement of Facts (SOF) sent	Sl.No. in the SOF Register	No. and date of letter in which DP sent to Government	Remarks
1	2	3	4	5	6	7	8	9	10	11	12	13

NOTE OF POSTING OF LIST OF CORRECTIONS

Sl.No. of the list	Para No. added	Para No. deleted	Sl.No. of the list	Para No. added	Para No. deleted
₹					